

Port Harcourt Electricity Distribution Plc.
Annual Report and Financial Statements
For the Year Ended 31 December 2021

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2021
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Port Harcourt Electricity Distribution Plc.

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For the Year Ended 31 December 2021

Corporate Information

Company registration number

RC 638702

Directors

T. Iboroma Akpana	Chairman	<i>(Appointed 5 July 2022)</i>
Dr. Benson Uwheru	Managing Director	<i>(Appointed 5 July 2022)</i>
Mr. Ismaila Danladi Shuaibu	Non-Executive Director	<i>(Appointed 5 July 2022)</i>
Mr. Emmanuel Emuejevoke Okotete	Non-Executive Director	<i>(Appointed 5 July 2022)</i>
Mr. Kola Adesina, MFR	Non-Executive Director	<i>(Appointed 7 September 2022)</i>
Dr. Alex Ayoola Okoh	Non-Executive Director	<i>(Appointed 4 May 2017)</i>
Dr. Ransome Egim Owan	Chairman	<i>(Resigned as Chairman on 7 December 2021; Removed as Director on 5 July 2022)</i>
Mr. Ogheneruemu Dickens Sanomi	Vice Chairman	<i>(Removed 5 July 2022)</i>
Dr. Henry Ajagbawa	Managing Director	<i>(Removed 5 July 2022)</i>
Engr. Olice Dickson Kemenanabo	Chairman	<i>(Appointed 24 February 2022; Removed as Director on 5 July 2022)</i>
HRM Amalate Johnnie Turner	Non-Executive Director	<i>(Resigned 11 November 2021)</i>
Engr. Matthew Oghenechuko Edevbie	Non-Executive Director	<i>(Removed 5 July 2022)</i>
Dr. Abdul Wahaab Adebayo Ibraheem	Non-Executive Director	<i>(Removed 5 July 2022)</i>
Mr. Sani Mohammed Usman	Non-Executive Director	<i>(Removed 5 July 2022)</i>
Mr. Abdullahi Ibrahim Halilu	Independent Director	<i>(Removed 5 July 2022)</i>

Corporate office

1, Moscow Road
Port Harcourt
Rivers State

Company secretary

Sterling Law Alliance
11 Iriebe Street
D-Line
Port Harcourt
Rivers State

Principal bankers

Ecobank Plc.
First Bank of Nigeria Limited
Polaris Bank Limited
United Bank for Africa Plc.
Zenith Bank Plc.
Keystone Bank
Globus Bank
Sterling Bank

Independent auditor

PricewaterhouseCoopers
Chartered Accountants
Landmark Towers
5b Water Corporation Road
Victoria Island
Lagos

Port Harcourt Electricity Distribution Plc

Financial Statements

For the Year Ended 31 December 2021

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2021, to the members of Port Harcourt Electricity Distribution Plc. ("the Company"). This report discloses the financial performance and state of affairs of the Company.

Incorporation and address

Port Harcourt Electricity Distribution Plc. was incorporated in Nigeria under the Companies and Allied Matters Act as a Public Limited Company on 8 November 2005. The Company is domiciled in Nigeria. The registered business address is:

1, Moscow Road
Port Harcourt
Rivers State

Principal activities

The Company is in the business of distribution and marketing of electric power to customers in the following states in Nigeria: Akwa Ibom, Bayelsa, Cross River and Rivers states.

State of affairs

In the opinion of the directors, the state of the Company's affairs is satisfactory and there has been no material change since the reporting date which would affect the financial statements as presented.

Results for the year

The Company's results for the year are set out on page 12. The loss for the year of ₦18.2 billion (2020: profit of ₦0.2 million) has been absorbed in accumulated deficit.

Economic and business performance review

The Company had the following:

	2021	2020
Total number of customers	712,805	522,224
Total energy received (in thousand of kilowatts)	2,144,307	2,020,709
Total cash collections (in thousands of Naira)	45,167,569	29,553,354

Property, plant and equipment

Information relating to movement in property, plant and equipment is as shown in note 13 to the financial statements. In the opinion of the directors, the market value of the Company's property, plant and equipment is not materially different from the carrying value shown in the financial statements.

Directors' interest in shares

Pursuant to Section 303 of the Companies and Allied Matters Act, none of the directors have any direct interest in the shares of the Company as notified by them and recorded in the Register.

Directors' interests in contracts

None of the directors has notified the Company for the purpose of Section 303 of the Companies and Allied Matters Act of their direct or indirect interest in contracts or proposed contracts with the Company during the year apart from disclosures made in note 25.

Shareholdings

As of 31 December 2021 and 31 December 2020, the shares of the Company were held as follows:

	2021		2020	
	No. of shares	Percentage	No. of shares	Percentage
4Power Consortium Limited	6,000,000	60%	6,000,000	60%
Bureau of Public Enterprises	3,200,000	32%	3,200,000	32%
Ministry of Finance	800,000	8%	800,000	8%
	10,000,000	100%	10,000,000	100%

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Report of the Directors

Equal employment opportunity

The Company pursues an equal employment opportunity policy. It does not discriminate against any person on the ground of race, religion, colour or physical disability.

Employment of disabled persons

The Company has a policy of fair consideration of job applications by disabled persons having regard to their abilities and aptitude. The Company's policy prohibits discrimination of disabled persons in the recruitment, training and career development of its employees.

However, no disabled person was employed by the Company in the year. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and that the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should as far as possible be identical with that of other employees.

Employee health, safety and welfare

Health and safety regulations are in force within the Company's premises and employees are aware of existing regulations. Careful attention is given to employees' health with Health Maintenance Organizations.

Fire prevention and fire-fighting equipment are installed in strategic locations within the Company's premises. Field staff are also provided with Personal Protective Equipment.

Dividend

The directors are not recommending the payment of dividends to its shareholders in respect of the year ended 31 December 2021 (2020:nil).

Donations

The Company made donations amounting to ₦4.0 million (2020: ₦37.1 million) during the year.

Auditors

Messrs. PricewaterhouseCoopers, having satisfied the relevant corporate governance guidelines, have indicated their willingness to continue in office as the auditors in accordance with Section 401(2) of the Companies and Allied Matters Act (CAMA).

By order of the Board



STERLING LAW ALLIANCE

Francis Elechi (for Sterling Law Alliance)

Company Secretary

FRC/2022/PRO/NBA/002/783526

16th December2022

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2021

Statement of Directors' Responsibilities

The Companies and Allied Matters Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of financial affairs of the Company at the end of the year and of its profit or loss. The responsibilities include:

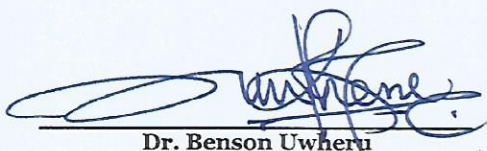
- a) ensuring that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company and comply with the requirements of the Companies and Allied Matters Act and Financial reporting council of Nigeria Act;
- b) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; and
- c) preparing the Company's financial statements using suitable accounting policies supported by reasonable and prudent judgements and estimates that are consistently applied.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act and Financial reporting council of Nigeria Act.

The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

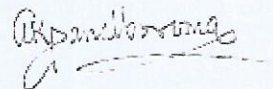
The directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not remain a going concern in the year ahead.

See note 28 to these financial statements for more details.



Dr. Benson Uwheri
Managing Director/ CEO
FRC/2013/CIBN/00000001554

16th December.....2022



T. Iboroma Akpana
Chairman
FRC/2022/PRO/DIR/003/303573

.....16th December,.....2022

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2021

Statement of Corporate Responsibility


In line with the provision of Section 405 of the Companies and Allied Matters Act 2020, the Chief Executive Officer and Chief Financial Officer certify that the Directors have reviewed the audited financial statements and based on the officer's knowledge confirm the following:

- a) We have reviewed the financial statements, and based on our knowledge the:
 - i) audited financial statements do not contain any untrue statement of material fact or omit to state a material fact, which would make the statements misleading, in the light of the circumstances under which such statement was made, and
 - ii) audited financial statements and all other financial information included in the statements fairly present, in all material respects, the financial condition and results of operation of the Company as of and for, the periods covered by the audited financial statements;
- b) We certify that we:
 - i) are responsible for establishing and maintaining internal controls and have designed such internal controls to ensure that material information relating to the Company and its subsidiaries is made known to us by other officers of the Companies, particularly during the period in which the audited financial statement report is being prepared,
 - ii) have evaluated the effectiveness of the Company's internal controls within 90 days prior to the date of its audited financial statements, and
 - iii) certify that the Company's internal controls are effective as of that date;
- c) We disclosed to the Company's auditors:
 - i) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarise and report financial data, and have identified for the Company's auditors any material weaknesses in internal controls, and
 - ii) whether or not, there is any fraud that involves management or other employees who have a significant role in the Company's internal control; and
- d) We have indicated in the report, whether or not, there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.



Dr. Benson Uwheru
Managing Director/ CEO
FRC/2013/CIBN/00000001554

16th December2022



Mr. Friday Agillo
Chief Financial Officer
FRC/2022/PRO/ICAN/001/672288

16th December2022



Independent auditor's report

To the Members of Port Harcourt Electricity Distribution Company Plc.

Report on the audit of the financial statements

Our opinion

In our opinion, Port Harcourt Electricity Distribution Company Plc.'s ("the company's") financial statements give a true and fair view of the financial position of the company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act and the Financial Reporting Council of Nigeria Act.

What we have audited

Port Harcourt Electricity Distribution Company Plc.'s financial statements comprise:

- the statement of profit or loss and other comprehensive income for the year ended 31 December 2021;
- the statement of financial position as at 31 December 2021;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), i.e., the IESBA Code issued by the International Ethics Standards Board for Accountants. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Material uncertainty relating to going concern

We draw attention to Note 28 in the financial statements, which indicates that the company incurred a net loss after tax of ₦18.2 billion during the year ended 31 December 2021 and, as of that date, the company's current liabilities exceeded its current assets by ₦59.6 billion. As stated in Note 28, these events or conditions, along with other matters as set forth in Note 28 indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



In addition to the matters described in the Material Uncertainty Relating to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment of trade receivables (₦191.6 billion)</i> <i>Refer to notes 2.9, 3.1.2, 4.2, 17.1 and 17.3 of the financial statements</i></p> <p>The company bills its customers monthly using the Multi-Year Tariff Order (MYTO). Customers are classified based on their payment pattern as prepaid and post-paid. The risk of impairment to trade receivables relates to only post-paid customers because some customers do not make payment as and when due on the bills.</p> <p>We focused on this area due to the materiality of the trade receivable of ₦199.2 billion and resulting impairment of ₦191.6 billion, and because it requires significant judgement both for timing of recognition of impairment and estimation of the amount of such impairment.</p> <p>The expected credit loss (ECL) model requires significant judgement in measuring ECL especially incorporating forward looking information (such as forecast inflation and Gross Domestic Product (GDP)) in building the economic scenarios used in the ECL model.</p> <p>The company utilised the “simplified approach’ model for the trade receivable. Under the simplified approach, the provision combines the historical loss rate with forward looking assumptions which takes management’s view of the future of the customer into account.</p>	<p><i>Our procedures included the following:</i></p> <ul style="list-style-type: none"> ● We obtained an understanding of the company’s process for classification of its customers based on tariff bands and estimating the expected credit loss (ECL) for these customers; ● We tested the calculation of the historical loss rate across the aging buckets; ● We challenged management regarding the forward-looking assumptions (forecast inflation and Gross Domestic Product) and compared those assumptions against publicly available information; ● We compared the impairment calculated by management against the amount already recognised in the books; and ● We reviewed the IFRS 9 disclosures for reasonableness.
<p><i>Recognition of tariff shortfall (₦166.2 billion)</i> <i>Refer to notes 2.9.1, 7 and 17.2 of the financial statements</i></p> <p>The Nigerian Electricity Regulatory Commission (NERC) regulates electricity tariffs in the Nigerian electricity supply industry through the periodic issuance of tariff orders known as the Multi-Year Tariff Order (MYTO). The MYTO ensures prices charged by licensees are fair to consumers and are sufficient to allow licensees recover the cost of energy purchased from the Nigerian Bulk Electricity Trading Plc. (NBET), including a reasonable return on the capital invested in the business.</p> <p>NERC implemented MYTO reviews in 2020 which had a material and immediate impact on end-user tariffs payable by all classes of electricity customers in the country. Prior to this review, there existed a wide tariff gap due to the absence of cost-reflective tariffs which has not been completely eliminated. As a result, the company is not able to pass on the full cost of energy purchased to end users leading to tariff shortfalls (due from customers to Discos).</p>	<p><i>Our procedures included the following:</i></p> <ul style="list-style-type: none"> ● We examined the NERC orders to obtain an understanding of the considerations for recognition; ● We checked that the tariff shortfall amount recognised by the company was in line with the NERC orders; ● We involved our accounting technical specialists in evaluating the appropriateness of the accounting treatment of these transactions by management;



<p>The Company received credit notes from NBET and this was applied in reducing tariff shortfall against NBET accounts payables.</p> <p>Based on the MYTO order applicable to 2021 year end, the company recognised a tariff shortfall of ₦166.2 billion for 2015 – 2021 after taking into cognisance the credit notes received from NBET.</p> <p>We focused on this area due to the significance of the transaction and the materiality of tariff shortfall recognised.</p>	<ul style="list-style-type: none">• We examined the credit notes received from NBET for reasonableness• We evaluated the adequacy of the disclosures in the financial statements.
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Other information

The directors are responsible for the other information. The other information comprises the Corporate information, Report of the directors, Statement of directors’ responsibilities, Statement of corporate responsibility, Value added statement and Five-year financial summary, but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act, the Financial Reporting Council of Nigeria Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company’s financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is



sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The Companies and Allied Matters Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) the company has kept proper books of account, so far as appears from our examination of those books and returns adequate for our audit have been received from branches not visited by us;
- iii) the company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account and returns.

Akinyemi Akingbade

For: **PricewaterhouseCoopers**
Chartered Accountants
Lagos, Nigeria

Engagement Partner: Akinyemi Akingbade
FRC/2013/ICAN/00000004012



16 December 2022

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2021
Statement of Profit or Loss and Other Comprehensive Income

	Notes	31 December 2021 ₦'000	31 December 2020 ₦'000
Revenue from contracts with customers	5	72,969,394	57,144,010
Cost of sales	6	(77,762,582)	(63,451,968)
Gross loss		(4,793,188)	(6,307,958)
Other income	7	29,409,532	48,066,486
Administrative expenses	8	(8,122,091)	(7,302,836)
Net impairment losses on financial assets	9	(30,700,604)	(23,570,810)
Operating (loss)/profit		(14,206,351)	10,884,882
Finance income	10	115,280	110,380
Finance costs	10	(3,741,530)	(10,543,556)
Finance costs - net		(3,626,250)	(10,433,176)
(Loss)/profit before income tax		(17,832,601)	451,706
Income tax expense	11	(347,450)	(451,474)
(Loss)/profit for the year		(18,180,051)	232
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation of property, plant & equipment	13	47,609,202	-
Other comprehensive income, net of tax		47,609,202	-
Total comprehensive income for the year		29,429,151	232
(Loss)/earnings per share in Naira (basic & diluted)	12	(1,818.01)	0.02

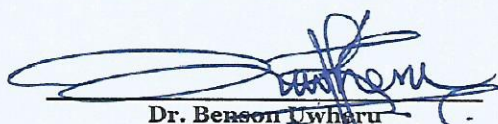
The statement of accounting policies and notes on pages 16 to 58 are an integral part of these financial statements.

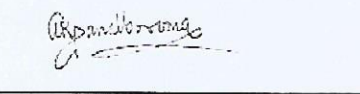
Port Harcourt Electricity Distribution Plc.
Financial Statements
As at 31 December 2021
Statement of Financial Position

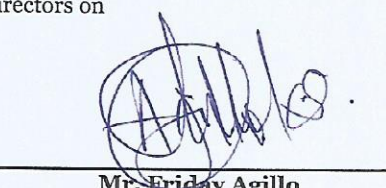
	Notes	31 December 2021 N'000	31 December 2020 N'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	117,787,789	63,955,145
Right-of-use assets	15.1.1	127,049	288,974
Intangible assets	14	256,410	193,138
Total non-current assets		118,171,248	64,437,257
Current assets			
Inventories	18	571,148	634,316
Other receivables	17	166,131,270	183,601,689
Trade receivables	17	7,586,742	8,439,794
Cash and cash equivalents	16	12,955,210	10,416,839
Total current assets		187,244,370	203,092,638
Total assets		305,415,618	267,529,895
LIABILITIES			
Non-current liabilities			
Borrowings	20	13,278,773	7,879,052
Lease liabilities	15.1.2	60,367	102,909
Government grants	21	10,196,765	4,987,080
Total non-current liabilities		23,535,905	12,969,041
Current liabilities			
Trade and other payables	19	232,084,729	238,618,649
Borrowings	20	5,924,622	4,605,219
Lease liabilities	15.1.2	74,760	255,161
Government grants	21	1,993,335	954,525
Contract liabilities	22	4,462,178	3,047,194
Current tax liabilities	11.3	2,317,922	1,487,090
Total current liabilities		246,857,546	248,967,838
Total liabilities		270,393,451	261,936,879
EQUITY			
Share capital	23.1	5,000	5,000
Accumulated deficit	23.2	(29,025,440)	(11,723,821)
Revaluation reserve	23.3	64,042,607	17,311,837
Total equity		35,022,167	5,593,016
Total equity and liabilities		305,415,618	267,529,895

The statement of accounting policies and notes on pages 16 to 58 are an integral part of these financial statements.

The financial statements on pages 12 to 58 were approved and authorized for issue by the board of directors on
 16th December 2022 and were signed on its behalf by:


Dr. Benson Uwharu
 Managing Director/CEO
 FRC/2013/CIBN/00000001554


T. Iboroma Akpana
 Chairman
 FRC/2022/PRO/DIR/003/303573


Mr. Friday Agillo
 Chief Financial Officer
 FRC/2022/PRO/ICAN/001/672288

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2021
Statement of Changes in Equity

	Share capital ₦'000	Accumulated deficit ₦'000	Revaluation reserve ₦'000	Total equity ₦'000
Balance at 1 January 2020	5,000	(12,229,308)	17,817,092	5,592,784
Profit for the year	-	232	-	232
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	232	-	232
Transfer of excess depreciation due to revaluation (note 23.3)	-	505,255	(505,255)	-
Balance at 31 December 2020	5,000	(11,723,821)	17,311,837	5,593,016
Balance at 1 January 2021	5,000	(11,723,821)	17,311,837	5,593,016
Loss for the year	-	(18,180,051)	-	(18,180,051)
Other comprehensive income	-	-	47,609,202	47,609,202
Total comprehensive income for the period	-	(18,180,051)	47,609,202	29,429,151
Transfer of excess depreciation due to revaluation (note 23.3)	-	878,432	(878,432)	-
Balance at 31 December 2021	5,000	(29,025,440)	64,042,607	35,022,167

The statement of accounting policies and notes on pages 16 to 58 are an integral part of these financial statements.

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2021
Statement of Cash Flows

	Notes	31 December 2021 ₦'000	31 December 2020 ₦'000
Cash flows from operating activities			
Cash generated from operations	24	297,545	9,817,976
Income taxes paid	11.3	(20,000)	(60,027)
Value added tax (VAT) paid	24.1, 24.2	-	(911,072)
Net cash inflow from operating activities		277,545	8,846,877
Cash flows from investing activities			
Payments for property, plant and equipment	13	(9,336,941)	(2,866,056)
Interest received	10	115,280	110,380
Payments for intangible assets	14	(90,246)	(73,690)
Net cash outflow from investing activities		(9,311,907)	(2,829,366)
Cash flows from financing activities			
Proceeds from borrowings	20	15,256,810	4,705,187
Principal elements of lease payments	15.3	(57,814)	(160,585)
Interest paid on borrowings	20	(1,394,281)	(1,331,808)
Repayment of borrowings	20	(2,659,583)	(2,228,831)
Net cash inflow from financing activities		11,145,132	983,963
Net increase in cash and cash equivalents		2,110,770	7,001,474
Cash and cash equivalents at the beginning of the year		10,092,087	3,090,613
Cash and cash equivalents at the end of the year	16	12,202,857	10,092,087

The statement of accounting policies and notes on pages 16 to 58 are an integral part of these financial statements.

Port Harcourt Electricity Distribution Plc.

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Notes to the Financial Statements

1 General information

Port Harcourt Electricity Distribution Plc. ('the Company', or "PHED") is one of the eleven (11) electricity distribution companies in Nigeria. The Company was licensed in 2006 by the Nigeria Electricity Regulatory Commission (NERC) to distribute and market electricity to consumers in four states in the South-South region of Nigeria: Akwa Ibom, Bayelsa, Cross River and Rivers States.

The Company currently services about 712,805 customers.

Business Transition

In 1999, the Federal Government of Nigeria set up the Electric Power Sector Implementation Committee (EPIC) to undertake a comprehensive study of the electricity power industry. The EPIC created Power Holding Company of Nigeria (PHCN), a company registered under the Companies and Allied Matters Act, to assume the assets, liabilities and employees of the former Federal Government parastatal - National Electric Power Authority ("NEPA") that was in charge of electricity generation, transmission and distribution in Nigeria. PHCN was set up to achieve greater operational autonomy. The shares of PHCN were fully owned by the Federal Government of Nigeria.

In 2005, PHCN was unbundled to form 6 electricity generation, 1 electricity transmission and 11 electricity distribution companies with the intent of sale of shares in these companies to private investors. PHED is one of the electricity distribution companies. The Federal Government also set up a special purpose agency, Nigeria Electricity Liability Management Company Limited (NELMCO) to take over some assets and liabilities of these companies in order to sell the shares of the companies carrying only core assets and liabilities to intending investors.

On 1 November 2013, 4Power Consortium Limited bought 60% shares in PHED from the Federal Government.

All electricity companies are regulated by Nigerian Electricity Regulatory Commission (NERC), a Federal Government regulatory body that ensures efficiency, stability and reliability in the supply of electricity in Nigeria. On 1 November 2013, NERC set up interim rules that will regulate the electricity generation, transmission and distribution companies in Nigeria that were privatized from PHCN. These rules will be in force until such a time as determined by NERC when market forces and operations will determine prices and operations in the power sector. These rules include pricing of electricity, distribution areas, etc.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

2.1 Basis of preparation

a) Compliance with IFRS

The financial statements for the year ended 31 December 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB), the requirements of the Companies and Allied Matters Act (CAMA) and the Financial Reporting Council of Nigeria Act (FRC).

The preparation of financial statements, in conformity with generally accepted accounting principles under IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires directors to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Port Harcourt Electricity Distribution Plc.

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2.1 Basis of preparation (continued)

b) Basis of measurement

The financial statements have been prepared on a historical cost basis except for land, buildings, motor vehicles, furniture & fittings, sub-transmission and distribution equipment classified as property, plant and equipment, government grants which have been measured at fair value. Borrowings are initially recognized at fair value, net of transaction costs incurred and subsequently, measured at amortised cost. The financial statements are presented in Naira. All values are rounded to the nearest thousand (₦'000), except where otherwise indicated.

2.1.1 Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. Refer to note 28 for further information on going concern.

2.1.2 Changes in accounting policies and disclosures

a) New standards and interpretations adopted by the Company

In the current year, the Company adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Covid-19-Related Rent Concessions

Amendments to IFRS 16 Leases provides relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. This amendment was initially expected to apply to annual reporting period beginning on 1 June 2020 but was revised to 1 April 2021. Upon management's assessment, there is no significant implication for the Company's leases.

Interest Rate Benchmark Reform – Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The amendments made to IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, provide certain reliefs in relation to interest rate benchmark reforms.

The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries. Based on management's assessment, there is no significant impact.

There are no other new standards and interpretation adopted by the Company.

b) New standards, amendments and interpretations not yet adopted by the Company

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Company. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Functional currency and translation of foreign currencies

a) Functional and presentation currency

Items included in the financial statements of the entity are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Naira (₦), which is the Company's functional and presentational currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency of the entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss.

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2.2 Functional currency and translation of foreign currencies (continued)

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

2.3 Revenue from contract with customers

Revenue primarily represents the sales value of electricity and other related energy services supplied to customers during the year and excludes Value Added Tax (VAT). The Company generally recognizes revenue when it supplies electricity to a customer. Delivery is deemed complete when the risks and rewards associated with ownership have been transferred to the buyer as contractually agreed, that is the electricity has been consumed by the customers, compensation has been contractually established and collection of the resulting receivable is probable. Revenue is measured at the fair value of the consideration received or receivable.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Category of revenue	Nature and timing of satisfaction of performance obligations, including payments terms	Revenue recognition
Postpaid revenue	The performance obligation of the Company is satisfied over time as electricity is supplied to the customers. Billing is done on a monthly basis and payment is contractually expected within 30 days of billing.	Revenue is recognised over time as electricity is provided. The amount of revenue to recognise during the year is assessed based on the unit delivered method. The stand-alone selling price is determined based on the NERC approved tariff for the different categories of customers. Billings to customers are recognised as revenue based on the evaluation of whether collection of consideration is probable.
Prepaid revenue	Satisfaction of performance obligation is same as post-paid revenue. Payment is received in advance of consumption of electricity.	Revenue is recognised over time as electricity is provided. In case of prepaid customers, an estimate is made for unearned revenue as at year end and this is included in the statement of financial position as contract liability.

The Company has disaggregated its revenue based on the customer tariff class and customer payment type.

2.4 Property, plant and equipment

Property, plant and equipment are initially stated at cost. After recognition as an asset, they are carried at revalued amount (except for computer & communication equipment measure at cost), being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses for all classes of property, plant and equipment except land. Valuations are performed every five years with sufficient regularity to ensure that the carrying amount of a revalued asset does not differ materially from its fair value at the reporting date.

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2.4 Property, plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of assets are recognized, net of tax, in other comprehensive income and accumulated in reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognized in profit or loss, the increase is first recognized in profit or loss. Decreases that reverse previous increases of the same asset are first recognized in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from property, plant and equipment revaluation surplus to retained earnings.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to write down their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Asset class	Depreciation rate	Useful life
Building	2% - 3%	33 - 50 years
Plant and machinery	2.85%- 5%	20 - 35 years
Computer equipment	10%	10 years
Furniture and fittings	10%	10 years
Motor vehicles	20%	5 years

Where the cost of a part of an item of property, plant and equipment is significant when compared to the total cost, that part is depreciated separately based on the pattern which reflects how economic benefits are consumed.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance reporting date. An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and are included in profit or loss. When revalued assets are sold, it is the Company's policy to transfer any amounts included in revaluation reserve in respect of those assets to retained earnings.

Transfer of assets from customers

When electricity distribution items such as transformers, are purchased by or transferred by customers, the Company assesses whether such assets are being transferred to the Company and if the items meet the definition of an asset, that is, if the Company has control, if the cost can be reliably measured and if it is probable that economic benefit will flow to the Company from the use of the items. If this is met, such items would be recognized at fair value on initial recognition in property, plant and equipment with an increase in 'other income' in the period when the assets are transferred from customers.

Work in progress

Work in progress is stated at cost, which includes cost of construction, plant and equipment and other direct costs. Work in progress is not depreciated until such time that the relevant assets are substantially completed and available for their intended use.

Major spare parts and stand-by equipment qualify as property, plant and equipment when the Company expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment under work in progress.

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2.5 Impairment of assets

Goodwill and intangible assets, with a definite useful life, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.6 Intangible assets

Software

Software, not integral to the related hardware acquired by the Company, is stated at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method to allocate the cost of software over its estimated useful life.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The estimated useful life is ten (10) years and the amortisation is recognized in 'profit or loss'.

The expected useful life is reviewed on an annual basis and, if necessary, changes in useful life is accounted for prospectively.

Intangible assets are derecognised when it is either disposed of or when no future economic benefits are expected from its disposal.

2.7 Financial instruments

Investments and other financial assets

a) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at 'fair value through other comprehensive income' (FVOCI).

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

c) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

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2.7 Financial instruments: Debt instruments (continued)

Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income (OCI), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses), and impairment expenses are presented as separate line item in the statement of profit or loss.

Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

d) Impairment

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables and for other receivables, the Company applies the IFRS 9 general model for measuring their expected credit losses (ECL).

2.8 Inventories

Distribution materials, meters and stationaries are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of first in, first out (FIFO) principle. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completions and the estimated costs necessary to make the sale.

Plant and machinery equipment such as meters and transformers in inventories are reclassified to property, plant and equipment when they are issued and put to use.

2.9 Trade and other receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method less loss allowance. The Company holds the trade receivables with the objective to collect contractual cash flows and therefore measures them subsequently at amortised costs using the effective interest method. Information about the impairment of trade receivables and the Company's exposure to credit risk and interest rate risk can be found in note 3.

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2.9.1 Tariff Shortfall

Tariff shortfalls arising from the difference between actual end-user tariffs approved by the Nigerian Electricity Regulatory Commission ("NERC") and cost-reflective tariffs allowed by NERC for recovery are based on regulatory orders and subject to recovery through means other than billings to customers. Shortfalls are recognised in profit or loss as other income in the periods the shortfalls are approved by NERC. Tariff shortfalls relating to prior periods are recognised in other income in the current period upon NERC's approval.

2.10 Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are initially recognized at their fair value and subsequently measured at amortised cost using the effective interest method.

2.11 Share capital

The Company has only one class of shares; ordinary shares. Ordinary shares are classified as equity. When new shares are issued, they are recorded as share capital at their par value. The excess of the issue price over the par value is recorded in the share premium reserve.

2.12 Cash and cash equivalents

For the purpose of presentation in the statement of cashflows, cash and cash equivalents includes cash in hand, deposits held at call with financial institutions, other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

2.13 Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for Nigeria adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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2.14 Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:

- the Company has the right to operate the asset; or
- the Company designed the asset in a way that predetermines how and for what purpose it will be used.

The Company primarily leases vehicles and buildings (used as office space and residential use). The lease terms are typically for fixed periods ranging from 1 year to 3 years but may have extension options as described below. On renewal of a lease, the terms may be renegotiated.

Contracts may contain both lease and non-lease components. The Company has elected not to separate lease and non-lease components. Lease terms are negotiated on an individual basis and contain different terms and conditions, including extension and termination options. The lease agreements do not impose any covenants, however, leased assets may not be used as security for borrowing purposes.

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Leases in which the Company is a lessee

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease liabilities

At the commencement date of a lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

The lease payments are discounted using the Company's incremental borrowing rate (IBR) as the rate implicit in the lease cannot be readily determined. The IBR represents the rate that PHED would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security and conditions.

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2.14 Leases (continued)

Lease liabilities (continued)

To determine the incremental borrowing rate, the Company has used a one-year commercial lending rate as a starting point and adjusts it against a risk-free interest rate to derive a spread. The spread is then applied on Federal Government of Nigeria bonds' interest rates with the same maturity period as the lease term.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced by the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset where applicable.

The Company presents lease liabilities separately from other liabilities in the statement of financial position.

2.14.1 Right-of-use assets

Right-of-use assets are initially measured at cost, comprising of the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The Company presents right-of-use assets separately from property, plant and equipment in the statement of financial position.

2.14.2 Short-term leases and leases of low-value assets

Short-term leases are those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Low-value assets are assets that have values less than ₦1,000,000 when new, e.g., small IT equipment and small items of office furniture, and depends on the nature of the asset. Lease payments on short-term leases and leases of low-value assets would be recognized as expenses in profit or loss on a straight-line basis over the lease term.

2.14.3 Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate).

If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate).

Otherwise, the Company considers other factors, including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

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2.15 Employee benefits

2.15.1 Wages, salaries and annual leave

Wages, salaries, bonuses, other contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the Company.

2.15.2 Defined contribution plan

The Company operates a defined contribution scheme for its employees in line with the Pension Reform Act 2014. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company contributes 10% while employees contribute 8% of basic, housing and transport allowances towards the scheme. Staff contributions are funded through payroll deductions while the Company's contribution is charged to the profit or loss account in the year in which they relate. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Company and employees. The Company's contributions to the defined contribution schemes are charged to profit or loss account in the year to which they relate.

2.16 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are only disclosed and not recognized as liabilities in the statement of financial position.

If the likelihood of an outflow of resources is remote, the possible obligation is neither a provision nor a contingent liability and no disclosure is made.

2.17 Government grants

The Company benefits from Federal Government intervention in the power sector through funds provided to ensure liquidity in the industry and assets granted to power sector participants. The Federal Government of Nigeria, through the Central Bank of Nigeria, provides finance to these power sector participants at subsidised interest rates.

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Notes to the Financial Statements

2.17 Government grants (continued)

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between the proceeds received and the fair value of the loan based on prevailing market interest rates.

2.18 Statement of cash flows

The statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities.

The cash flows from operating activities are determined by using the indirect method, whereby profit or loss is adjusted for the effects of transactions of a noncash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposit held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

2.19 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.

Borrowings are eliminated from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs. Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are expensed in the period in which they are incurred.

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2.20 Cost of sales

Cost of sales includes the cost of energy, depreciation of distribution assets, staff cost of distribution (technical) staff and other direct costs for the distribution of energy.

Cost of energy refers to all costs incurred in the purchase of energy from suppliers. This comprises cost of electricity purchased from the Nigerian Bulk Electricity Trading Company (NBET) and service charges from the Market Operator (MO).

2.21 Interest income

Interest income is accrued on a time basis in the profit or loss by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

2.22 Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing:

- the profit/(loss) attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

2.23 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

3 Financial risk management

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk, and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on its financial and operational performance.

The Company has a risk management function that manages the financial risks relating to the Company's operations under the policies approved by the Board of directors. The Company's liquidity, credit, foreign currency, interest rate and price risks are continuously monitored. The Board approves written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk and credit risk.

3.1.1 Market risk

a) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recorded assets and liabilities are denominated in a currency that is not the entity's functional currency e.g., foreign denominated loans, purchases & sales transactions, etc. The Company did not have any material balance denominated in foreign currency as at 31 December 2021 as a result, no foreign currency sensitivity analysis is provided.

b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Borrowings obtained at variable rates give rise to interest rate risk. The Company does not have any short term loans with variable interest and as such is not exposed to interest rate risk. The Company's long term borrowings have fixed interest rate.

c) Price risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk. There are no financial instruments exposed to price risk.

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3.1 Financial risk factors (continued)

3.1.2 Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers including outstanding receivables. The Company has policies in place to ensure that credit limits are set for commercial customers taking into consideration the customers' tariff class, past trading relationship, credit history and other factors. When customers default in paying bills on due date, the Company disconnects supply to such customers and charges a fee on reconnection.

Management monitors the aging analysis of receivables on a periodic basis.

Financial instruments exposed to credit risk

	Notes	Maximum exposure	
		31 December 2021 ₦'000	31 December 2020 ₦'000
Cash and cash equivalents	16	12,955,210	10,416,839
Trade receivables (gross)	17.1	199,187,411	166,985,023
Other receivables (gross)*	17.2	167,214,567	187,079,446
Gross amount		379,357,188	364,481,308
Impairment**	17.3,17.5	(192,809,400)	(162,108,796)
Net amount		186,547,788	202,372,512

*Other receivables exclude prepayments, withholding tax and staff advances, as these are not financial instruments.

**Impairment of financial assets has been estimated in line with IFRS 9. See note 29 for details.

Sensitivity analysis

The tables below shows information on the sensitivity of the carrying amounts of the Company's financial assets to the methods, assumptions and estimates used in calculating impairment losses on the financial assets at the end of the reporting period. These methods, assumptions and estimates have a significant risk of causing material adjustments to the carrying amounts of the Company's financial assets.

Simplified approach:

Expected cash flow recoverable from trade receivables:

The table below demonstrates the sensitivity to a 10% change in the expected cash flows from trade receivables:

	31 December 2021 ₦'000
Effect on loss before tax	
Increase/(decrease) in estimated cash flows by:	
10%	(758,674)
(10%)	758,674

A 10% increase in the estimated cash flows would decrease loss before tax by ₦0.76 billion while a corresponding 10% decrease in the estimated cash flows will increase the loss before tax by ₦0.76 billion.

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3.1 Financial risk factors (continued)

The table below shows the sensitivity of the expected credit loss on trade receivables to an inverse and positive change in the forward looking macroeconomic variables:

	31 December 2021 N'000
Effect on ECL to change in inflation rate	
<i>Increase/decrease</i>	
10%	7,751,833
(10%)	(7,751,833)
Effect on ECL to change in GDP growth rate	
<i>Increase/decrease</i>	
10%	1,647,385
(10%)	(1,647,385)

The above shows the effect of 10% changes (increase/decrease) in the forward looking macroeconomic variables incorporated in the ECL model on the profit before tax.

General approach:

The table below demonstrates the sensitivity of the Company's loss before tax to movements in the probability of default (PD) and loss given default (LGD) for other receivables, with all other variables held constant:

	31 December 2021 N'000
Effect on loss before tax	
<i>Increase/decrease in LGD and PD</i>	
10%	41,253
(10%)	(41,253)

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	31 December 2021 N'000	31 December 2020 N'000
Cash and cash equivalents		
B-	9,791,269	2,383,198
B	1,243,180	448,570
Not rated	1,920,761	7,585,071
	12,955,210	10,416,839

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3.1 Financial risk factors (continued)

Fitch - National long-term rating

This is based on Fitch national long-term rating. National credit ratings are an assessment of credit quality relative to the rating of the lowest credit risk in a country. This lowest risk will normally, although not always, be assigned to all financial commitments issued or guaranteed by the sovereign state.

National ratings are not intended to be internationally comparable and are denoted by a special identifier for the country concerned. The performance of National ratings will also not be strictly comparable over time, given the moving calibration of the entire scale to the entity or entities with the lowest credit risk in a country, whose creditworthiness relative to other entities internationally may change significantly over time.

These above ratings are explained as follows:

'AA' National ratings denote expectations of very low default risk relative to other issuers or obligations in the same country. The default risk inherent differs only slightly from that of the country's highest rated issuers or obligations.

'A' National ratings denote expectations of low default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions may affect the capacity for timely repayment to a greater degree than is the case for financial commitments denoted by a higher rated category.

'BBB' National ratings denote a moderate default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions are more likely to affect the capacity for timely repayment than is the case for financial commitments denoted by a higher rated category.

'BB' National ratings denote an elevated default risk relative to other issuers or obligations in the same country. Within the context of the country, payment is uncertain to some degree and capacity for timely repayment remains more vulnerable to adverse economic change over time.

'B' National ratings denote that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

'Non rated' are banks or cash in hand that are not rated by Fitch.

"+" or "-" are used with a rating symbol to indicate the relative position of a credit within the rating category.

This is based on Fitch national long-term rating.

		31 December 2021	31 December 2020
	Notes	₦'000	₦'000
Other receivables			
Counter parties without external credit rating:			
Group 2	17.2	<u>167,340,001</u>	<u>187,165,256</u>

3.1.3 Liquidity risk

Management of liquidity risk

Cash flow forecasting is performed by the finance department. The finance department monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs. Prudent liquidity risk management implies maintaining sufficient cash. Due to the dynamic nature of the underlying businesses, the Company's finance department maintains flexibility in funding. Management monitors rolling forecasts of the Company's liquidity reserve comprising cash and cash equivalents on the basis of expected cash flow.

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3.1 Financial risk factors (continued)

Maturity analysis

The table below analyses financial liabilities of the Company into relevant maturity periods based on the remaining period at reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year N'000	Between 1 and 2 years N'000	Between 2 and 5 years N'000	Beyond 5 years N'000	Total N'000
At 31 December 2021					
Trade and other payables*	214,325,094	-	-	-	214,325,094
Borrowings	4,004,026	5,324,842	18,511,113	18,133,630	45,973,611
Lease liabilities	57,814	67,389	-	-	125,203
At 31 December 2020					
Trade and other payables*	226,903,636	-	-	-	226,903,636
Borrowings	3,451,348	3,054,026	7,841,334	2,914,325	17,261,033
Lease liabilities	314,846	127,578	-	-	442,424

*Trade and other payables exclude value added tax (VAT) payable, Withholding tax (WHT), security deposit and payroll related accruals as these are non-financial instruments.

3.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

Various financial ratios and internal targets are assessed and reported to the board of directors on a quarterly basis to monitor and support the key objectives set out above. These ratios and targets include:

- Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA);
- Current asset ratio;
- Interest cover; and
- Gearing ratio.

The Company's objective is to maintain these financial ratios in excess of any debt covenant restrictions and use them as a performance measurement and hurdle rate. The failure of a covenant test could render the facilities in default and repayable on demand at the option of the lender.

Total capital is calculated as equity plus net debt. The gearing ratios as at the end of December 2021 and December 2020 are as follows:

	Notes	31 December 2021 N'000	31 December 2020 N'000
Total borrowing	20	19,203,395	12,484,272
Total trade and other payables	19	232,084,729	238,618,649
Less: cash and cash equivalents	16	(12,955,210)	(10,416,839)
Net debt		238,332,914	240,686,082
Total equity		35,022,167	5,593,016
Total capital		273,355,081	246,279,098
Gearing ratio		87%	98%

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3.3 Fair value estimation

The table below analyses financial instruments whose fair values have been disclosed by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of the Company's borrowings as at 31 December 2021 is as follows: This fall within level 2.

Liabilities	31 December 2021		31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	₦'000	₦'000	₦'000	₦'000
Borrowing	<u>19,203,395</u>	<u>13,473,909</u>	<u>12,484,272</u>	<u>7,040,531</u>

The fair value of the borrowings for disclosure was determined by a discounted cash flow of the expected future cash outflows at the statement of financial position date using the maximum prime lending rate in Nigeria as at the statement of financial position date for a similar tenure and amount.

The fair value amounts disclosed above are all recurring fair value measurements. There were no non-recurring fair value measurements as at 31 December 2021 and 31 December 2020.

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

None of the Company's assets and liabilities fall within level 1 or 3.

a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1. Instruments included in Level 1 comprise primarily Nigerian Stock Exchange (NSE) listed instruments classified as trading securities or available for sale instruments.

b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

c) Financial instrument in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Techniques, such as discounted cash flow analysis, are used to determine fair value for the financial instruments included in level 3.

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3.3 Fair value estimation (continued)

Financial instruments by category

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of profit or loss or other comprehensive income. These categories are at amortized cost for both assets and liabilities. The following table shows the carrying values of assets and liabilities for each of these categories at 31 December 2021 and 31 December 2020:

	31 December 2021 ₦'000	31 December 2020 ₦'000
Assets		
Amortized cost:		
Cash and cash equivalents	12,955,210	10,416,839
Trade and other receivables*	173,592,578	191,955,673
	186,547,788	202,372,512
Liabilities		
Amortized cost:		
Trade and other payables**	214,325,094	226,903,637
Borrowings	19,203,395	12,484,271
	233,528,489	239,387,908

*Trade and other receivables exclude prepayments, withholding tax and staff advances, as these are not financial instruments.

**Trade and other payables exclude value added tax (VAT) payable, Withholding tax (WHT), security deposit and payroll related accruals as these are non-financial instruments. The fair value of the financial assets and liabilities approximate their carrying amount.

Fair valuation methods and assumptions

i) Trade and other receivables

Trade and other receivables are carried at amortized cost. The estimated fair value of trade and other receivables represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine the fair value. These fall under level 3 in the fair value hierarchy.

ii) Trade and other payables

Trade and other payables are carried at amortized cost net of impairment charge. The estimated fair value of the payables represent the discounted amount of estimated future cash flows expected to be paid. These are short term hence the fair value is the carrying amount as the impact of discounting is not material. These fall under level 3 in the fair value hierarchy.

4 Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances.

4.1 Useful lives and residual value of property, plant and equipment

The residual values, depreciation methods and useful lives of property, plant and equipment are reviewed for reasonableness at least annually. The review is based on the current market situation. The review of useful lives did not significantly impact depreciation.

The residual value of the Company's property, plant and equipment is estimated as follows:

Asset class	Percentage
Building	1%
Plant and machinery	1%
Computer equipment	1%
Furniture and fittings	1%
Motor vehicles	1%

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Notes to the Financial Statements

4 Critical accounting estimates and judgments (continued)

4.2 Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default, expected loss rates and maximum contractual period. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in note 29.

4.3 Deferred taxation

The Company has a deferred tax asset of ₦49.2 billion (2020: ₦56.5 billion) arising from tax losses, accelerated capital deductions and provisions. Management is of the view that there are no sufficient profits against which the deferred tax asset would be offset. These deferred tax assets have not been recognized in the financial statement.

Tax estimates are based on the position taken in the tax returns with respect to situations in which the applicable tax legislation is subject to interpretation.

4.4 Impairment assessment of non-financial assets

The Company has substantial investments in tangible long-lived assets comprising mainly of network distribution assets, land and building. The Company conducts impairment reviews of these assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the value in use, which requires the Company to estimate the future cash flows, a growth rate (that reflects the economic environments in which the Company operates) and a pre-tax discount rate (that reflects the current market assessments of the time value of money and the risks specific to the asset) in order to calculate the present value. Where the expected cash flows are less than the asset's carrying amount, an impairment loss may arise. After reviewing the business environment as well as the Company's objectives and past performance management has concluded that, there is no impairment.

4.5 Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate).
- Otherwise, the Company considers other factors, including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and is within the control of the lessee.

During the financial year, there were several revised lease terms and these have been accounted for as modifications adjustments in note 15.

4.6 Revaluation of Property, Plant & Equipment (PP&E)

The Company revalues its property, plant and equipment every five (5) years in line with her accounting policy on property, plant and equipment (see note 13). The valuation is usually undertaken by independent valuers and their valuation is based on open market value using the 'Depreciated Replacement Cost (DCR)' method. This method equates the open market value of an asset to the estimated total cost of the item as 'new' at the date of valuation less an allowance for depreciation to account for age, wear & tear and obsolescence.

During the year, the Company's plant, property & equipment were revalued and this gave rise to gain on revaluation amounting to ₦47.6 billion (see note 23.3).

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	31 December 2021 ₦'000	31 December 2020 ₦'000
5 Revenue from contracts with customers		
Electricity distribution	72,969,394	57,144,010
Revenue represents charges on the power distributed to customers. The Company's revenue is analysed based on the customer categories as follows:		
By customer payment type:		
Postpaid customers	63,450,362	51,268,471
Prepaid customers	9,519,032	5,875,539
	72,969,394	57,144,010
By customer tariff class:		
Residential	34,386,196	36,119,132
Commercial	17,832,143	14,292,147
Industrial	15,382,122	2,939,719
Government and others	5,368,933	3,793,012
	72,969,394	57,144,010

During the year, total energy billed amounted to ₦73 billion (2020: ₦57.1 billion), while total receipts within the year amounted to ₦45.2 billion (2020: ₦29.6 billion).

Revenue recognised in the reporting period that was included in the contract liability at the beginning of the period is ₦10.1 million (2020: ₦14.4 million).

All revenue recognised during the year were earned over time (2020: overtime).

6 Cost of sales

Cost of energy	70,349,196	56,724,533
Depreciation of plant and machinery (note 13)	2,282,714	2,163,126
Staff cost (note 25h)	2,307,005	1,994,695
Distribution maintenance costs	896,843	1,219,946
Other electricity distribution cost	1,926,824	1,349,668
	77,762,582	63,451,968

Total cost of energy during the year amounted to ₦70.3 billion (2020: ₦56.7 billion) while total payments for energy during the year amounted to ₦46.7 billion (2020: ₦18.9 billion). During the year, inventories amounting to ₦700.7 million (2020: ₦546.7 million) was recognised as an expense and included in cost of sales.

'Other electricity distribution cost' relates to costs incurred in the distribution of power to customers other than those itemized above.

7 Other income

Tariff shortfall*	23,516,000	37,972,183
Reconnection fee	299,919	208,267
Other non operating income	492,611	5,658,772
Commissioned assets from NIPP (note 13)	1,164,864	-
Transfer of assets from customers (note 13)	1,119,980	-
Loans modification gain (note 20.3.2, 20.3.3)	952,610	-
Lease modification gain (note 15.1)	392,320	3,228,597
Other charges on customers**	45,826	31,133
	27,984,130	47,098,952
Amortization of grant:		
On borrowings (note 21)***	1,425,402	967,534
Other income - net	29,409,532	48,066,486

*Tariff shortfall relates to the differential between the revenue tariff approved by Nigerian Electricity Regulatory Commission (NERC), the independent regulatory body with authority for the regulation of the electric power industry in Nigeria, and the actual end-user tariff charged to the customers which is expected to be paid by the Federal Government of Nigeria.

**Other charges on customers relates to penalties for meter tampering or theft of electricity.

***Government grants have been received based on the CBN - NEMSF1, CBN - NEMSF2 and CBN-NMMP loans obtained from the NESI- Stabilisation Strategy Limited at below market rate. There are no unfulfilled conditions or contingencies attached to these grants.

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	31 December 2021 N'000	31 December 2020 N'000
8 Expenses by nature		
<i>Included in administrative expenses:</i>		
Depreciation on property, plant and equipment (note 13.2)	375,058	143,591
Depreciation charge on right of use assets (note 15.2)	114,709	189,892
Amortization of intangible asset (note 14)	26,974	49,400
Staff cost (note 25h)	1,415,731	969,675
Other staff related expenses	640,084	671,397
Advertising	20,182	18,181
Audit fee	26,500	24,000
Billing related expenses	1,609,044	1,160,932
Consultancy	8,500	16,577
Directors fee	47,433	150,260
Donations*	4,017	37,093
Insurance expenses	73,894	87,233
Legal fees	103,445	156,086
Loss on disposal of PPE	75,431	25,324
Management support fees**	1,462,319	1,004,237
Minimum tax levy (note 11.2)	503,382	262,988
Outsourced services	73,955	23,233
Printing, stationery, internet and software expenses	71,314	117,152
Professional body subscription	45,253	151,093
Provision for legal cases	16,628	27,084
Short term rent	17,444	198,564
Security expenses	197,927	149,055
Transport and travelling expenses	868,640	980,733
Other operating expenses***	324,227	689,056
	8,122,091	7,302,836

*This majorly consist of funds donated to 'Innovate 4 Africa Ltd' for sponsorship and support to staff members for bereavement.

**'Management support fees' relates to expenses incurred for the provision of technical service assistance by Income Electrix Limited to the Company.

***'Other operating expenses' relates to other regulatory and ancillary running expenses of the business.

9 Impairment losses on financial assets

Increase in impairment losses on trade receivables (note 17.3)	33,055,440	22,821,772
(Decrease)/increase in impairment losses on other receivables (note 17.5)	(2,354,836)	749,038
Net impairment losses on financial assets	30,700,604	23,570,810

10 Finance income and cost

Finance cost

Interest on electricity market payable*	-	(7,899,650)
Lease interest expense (note 15.1.2)	(26,446)	(85,866)
Interest on CBN-NEMSF loan (note 20.3.2)	(1,898,106)	(2,385,962)
Interest on CBN-NMMP loan (note 20.3.3)	(531,244)	(26,188)
Interest on CBN-NEMSF2 loan (note 20.3.4)	(984,682)	-
Interest on intercompany loans (note 20.2)	(74,527)	(60,984)
Interest on bank loans (note 20.3.1)	(175,962)	(26,230)
Interest on bank overdrafts	(50,563)	(58,676)
	(3,741,530)	(10,543,556)

Finance income

Interest income**	115,280	110,380
Finance cost - net	(3,626,250)	(10,433,176)

*'Interest on electricity market payable' relates to interest charged on unpaid NBET invoices.

**'Interest income' relates to the interest received by the Company on its fixed deposits with financial institutions in Nigeria.

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11 Company income and deferred tax	31 December 2021 ₦'000	31 December 2020 ₦'000
11.1 Current income tax		
Education tax	347,450	451,474
Company income tax*	-	-
Total tax in statement of comprehensive income	347,450	451,474
*The Company is liable to pay minimum tax of ₦502.5 million (2020: ₦263.0 million). This has been recognised within operating expenses in line with IFRIC 21 "levies".		
11.2 Reconciliation of effective tax to statutory tax		
The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:		
(Loss)/profit before tax	(17,832,601)	451,706
Tax calculated at statutory tax rate of 30%	(5,349,780)	135,512
Effect of permanent differences	5,198,766	(214,695)
Effect of deferred tax asset on tax losses not recognised	151,014	79,183
Impact of minimum tax rule	503,382	262,988
Minimum tax expense	503,382	262,988
	31 December 2021 ₦'000	%
Loss before tax	(17,832,601)	100
Tax calculated at statutory tax rate of 30%	(5,349,780)	30
Companies income tax	-	-
Minimum tax	503,382	(3)
Deferred tax (income statement)	-	-
Effective tax rate	(4,846,398)	27
Less adjustments for:		
Effect of deferred tax asset on tax losses not recognised	151,014	1
Effects of permanent difference	5,198,766	29
Company income tax statutory rate	503,382	30
	31 December 2020 ₦'000	%
Profit before tax	451,706	100
Tax calculated at statutory tax rate of 30%	135,512	30
Companies income tax	-	-
Minimum tax	262,988	58
Deferred tax (income statement)	-	-
Effective tax rate	398,500	88
Less adjustments for:		
Effect of deferred tax asset on tax losses not recognised	79,183	(18)
Effects of permanent difference	(214,695)	48
Company income tax statutory rate	262,988	30

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Company income and deferred tax (continued)

Income tax is calculated at thirty (30) per cent of the estimated taxable profit for the year. The charge for taxation in these financial statements is based on the provisions of the Companies Income Tax Act (CITA) as amended by Finance Acts (FAs) 2019 and 2020.

The charge for education tax of two (2) per cent is based on the provisions of the Tertiary Education Trust Fund Act, 2011.

	31 December 2021 ₦'000	31 December 2020 ₦'000
11.3 Current income tax liability		
Balance at 1 January	1,487,090	832,655
Charge for the year:		
Income tax expense	-	-
Education tax	347,450	451,474
Minimum income tax	503,382	262,988
	<u>2,337,922</u>	<u>1,547,117</u>
Tax paid during the year:		
Payment during the year	<u>(20,000)</u>	<u>(60,027)</u>
At 31 December	<u>2,317,922</u>	<u>1,487,090</u>

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets of ₦49.2 billion for the Company have not been recognised as at 31 December 2021 (2020: ₦56.5 billion) because it is not probable that future taxable profits will be available against which they can be utilised.

12 Earnings per share

Basic earnings per share is calculated by dividing the attributable profit to equity holders of the Company by the weighted average number of common shares outstanding during the year. The basic earnings per share is calculated using the number of shares in issue as at the statement of financial position date.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potential dilutive shares at the reporting date (2020: nil), thus the basic earnings per share and diluted earnings per share have the same value.

	31 December 2021	31 December 2020
(Loss)/profit attributable to equity holders of the Company (₦'000)	<u>(18,180,051)</u>	<u>232</u>
Weighted average number of shares in issue (thousands)	<u>10,000</u>	<u>10,000</u>
Basic and diluted (loss)/earnings per share (₦)	<u>(1,818.01)</u>	<u>0.02</u>

Diluted earnings per share is the same as the basic earnings per share as there are no potential securities convertible to ordinary shares.

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13 Property, plant and equipment	Land N'000	Building N'000	Plant and machinery N'000	Motor vehicles N'000	Furniture & fittings and computer equipment N'000	Computer & communicati on equipment N'000	Asset under construction N'000	Total N'000
At 1 January 2020								
Cost	3,968,429	1,263,741	65,229,481	72,275	242,832	149,906	119,370	71,046,034
Accumulated depreciation	-	(111,324)	(7,278,668)	(72,275)	(121,663)	(40,526)	-	(7,624,456)
Net book value	3,968,429	1,152,417	57,950,813	-	121,169	109,380	119,370	63,421,578
Year ended 31 December 2020								
Opening net book value	3,968,429	1,152,417	57,950,813	-	121,169	109,380	119,370	63,421,578
Addition	-	17,147	1,712,630	641,696	49,489	23,952	421,642	2,866,556
Disposal (Cost)	-	-	(29,837)	-	-	-	-	(29,837)
Write offs*	-	-	(448)	-	-	-	-	(448)
Transfer**	-	-	-	38,700	-	-	(38,700)	-
Depreciation	-	(31,616)	(2,163,126)	(48,991)	(35,284)	(28,200)	-	(2,307,217)
Disposal/ (Accumulated depreciation)	-	-	4,513	-	-	-	-	4,513
Closing net book value	3,968,429	1,137,948	57,474,545	631,405	135,374	105,132	502,312	63,955,145
At 31 December 2020								
Cost	3,968,429	1,280,888	66,911,826	752,671	292,321	173,858	502,312	73,882,305
Accumulated depreciation	-	(142,940)	(9,437,281)	(121,266)	(156,947)	(68,726)	-	(9,927,160)
Net book value	3,968,429	1,137,948	57,474,545	631,405	135,374	105,132	502,312	63,955,145
Year ended 31 December 2021								
Opening net book value	3,968,429	1,137,948	57,474,545	631,405	135,374	105,132	502,312	63,955,145
Addition	-	401,307	7,908,080	974,937	34,581	18,036	-	9,336,941
Disposal (Cost)	-	-	(91,709)	-	-	-	(672)	(92,381)
Write offs*	-	-	-	-	-	-	(380,296)	(380,296)
Revaluation gain/(loss)	202,925	1,058,647	44,939,473	1,280,323	127,834	-	-	47,609,202
Transfer**	-	-	-	112,724	-	-	(112,724)	-
Depreciation	-	(32,352)	(2,282,714)	(266,165)	(39,089)	(37,452)	-	(2,657,772)
Disposal (Accumulated depreciation)	-	-	16,950	-	-	-	-	16,950
Closing net book value	4,171,354	2,565,550	107,964,625	2,733,224	258,700	85,716	8,620	117,787,789
At 31 December 2021								
Cost	4,171,354	2,740,842	119,667,670	3,120,655	454,736	191,894	8,620	130,355,771
Accumulated depreciation	-	(175,292)	(11,703,045)	(387,431)	(196,036)	(106,178)	-	(12,567,982)
Net book value	4,171,354	2,565,550	107,964,625	2,733,224	258,700	85,716	8,620	117,787,789

*This relates to write-off of asset under construction (2020: ₦448,000).

**Transfer of ₦112.7 million in current year relates to the cost of armored vehicle which has been transferred from asset under construction.

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Property, plant and equipment (continued)

13.1 Assets pledged as security

None of the Company's assets have been pledged as security.

13.2 Depreciation

Depreciation expense of ₦375.1 million (2020: ₦143.6 million) has been charged to administrative expenses and ₦2.3 billion (2020: ₦2.2 billion) has been charged to cost of sales.

13.3 Carrying amounts that would have been recognised if property, plant and equipment were stated at cost.

If the Company's property, plant and equipment were stated on the historical cost basis, the amount would be as follows:

	Land ₦'000	Building ₦'000	Plant and machinery ₦'000	Motor vehicle ₦'000	Furniture & fittings and computer equipment ₦'000	Total ₦'000
2021						
Cost	1,895,371	702,970	50,418,025	684,009	1,761,879	55,462,254
Accumulated depreciation	-	(274,306)	(11,823,551)	(518,442)	(266,302)	(12,882,601)
Net book amount	1,895,371	428,664	38,594,474	165,567	1,495,577	42,579,653
2020						
Cost	1,895,371	599,022	43,826,864	631,393	786,941	47,739,591
Accumulated depreciation	-	(259,101)	(10,157,586)	(411,179)	(42,387)	(10,870,253)
Net book amount	1,895,371	339,921	33,669,278	220,214	744,554	36,869,338

iv Method of measurement

Property, plant and equipment of the Company are recognised at fair value based on 5-year periodic valuations by external independent valuers, less subsequent depreciation for all classes of property, plant and equipment except land. A revaluation surplus is credited to revaluation surplus in shareholder's equity.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over the estimated useful lives.

Asset class	Depreciation rate	Useful life
Building	2% - 3%	33 - 50 years
Plant and machinery	2.85%- 5%	20 - 35 years
Computer equipment	10%	10 years
Furniture and fittings	10%	10 years
Motor vehicles	20%	5 years

v Fair value hierarchy

This explains the judgements and estimates made in determining the fair value of property, plant and equipment (PP&E) recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its PP&E as 'level 2' under the three levels prescribed in the accounting standards. An explanation of each level has been provided in note 3.3.

There were no transfers between levels for recurring fair value measurements during the year.

The Company engaged accredited independent valuer - Messrs. Knight Frank to determine the fair value of its property, plant and equipment as at 31 December 2021.

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	Software ₦'000
14 Intangible assets	
At 1 January 2020	
Cost	196,931
Accumulated amortisation	(28,083)
Net book amount	168,848
Year ended 31 December 2020	
Opening balance	168,848
Additions	73,690
Amortisation charge	(49,400)
Closing balance	193,138
At 1 January 2021	
Cost	270,621
Accumulated amortisation	(77,483)
Net book amount	193,138
Year ended 31 December 2021	
Opening balance	193,138
Additions	90,246
Amortisation charge	(26,974)
Closing balance	256,410
At 31 December 2021	
Cost	360,867
Accumulated amortisation	(104,457)
Net book amount	256,410

Intangible assets mainly represents the cost of information technology software in the Company's operations. This asset has a 10 year useful life.

15 Leases

15.1 Amounts recognised in the statement of financial position

15.1.1 Right-of-use assets

	Motor vehicle ₦'000	Building ₦'000	Total ₦'000
At 1 January 2020			
Cost	2,146,728	506,997	2,653,725
Accumulated amortisation	(715,576)	(152,793)	(868,369)
Net book amount	1,431,152	354,204	1,785,356
Year ended 31 December 2020			
Opening balance	1,431,152	354,204	1,785,356
Additions	-	71,701	71,701
Modification adjustment*	(1,363,116)	(15,075)	(1,378,191)
Depreciation charge	(68,036)	(121,856)	(189,892)
Closing balance	-	288,974	288,974
At 31 December 2020			
Cost	783,612	563,623	1,347,235
Accumulated amortisation	(783,612)	(274,649)	(1,058,261)
Net book amount	-	288,974	288,974

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15.1.1 Right-of-use assets (continued)	Motor vehicle	Building	Total
	₦'000	₦'000	₦'000
Year ended 31 December 2021			
Opening balance	-	288,974	288,974
Additions	-	103,933	103,933
Modification adjustment*	-	(151,149)	(151,149)
Depreciation charge	-	(114,709)	(114,709)
Closing balance	-	127,049	127,049
At 31 December 2021			
Cost	783,612	516,407	1,300,019
Accumulated amortisation	(783,612)	(389,358)	(1,172,970)
Net book amount	-	127,049	127,049

Right-of-use assets relates to leased buildings for office space and apartment with useful lives ranging from 2 to 6 years.

*Modification adjustment relates to the termination of some office space lease contracts from right-of-use assets during the year 2021.

15.1.2 Lease liabilities	Motor vehicle	Building	Total
	₦'000	₦'000	₦'000
At 1 January 2020	1,811,594	432,676	2,244,270
Additions	-	38,925	38,925
Interest expense	29,053	56,813	85,866
Modification adjustments*	(1,840,647)	(9,759)	(1,850,406)
Payments made during the period	-	(160,585)	(160,585)
Closing balance as at 31 December 2020	-	358,070	358,070
At 1 January 2021	-	358,070	358,070
Additions	-	49,596	49,596
Interest expense	-	26,446	26,446
Modification adjustments*	-	(241,171)	(241,171)
Payments made during the period	-	(57,814)	(57,814)
Closing balance as at 31 December 2021	-	135,127	135,127

*Modification adjustment relates to the termination of some office space lease contracts from right-of-use assets during the year 2021.

	2021	2020
	₦'000	₦'000
Current lease liabilities	74,760	255,161
Non-current lease liabilities	60,367	102,909
	135,127	358,070

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15.1.2 Lease liabilities (continued)

15.2 Amounts recognised in the statement of profit or loss

	Motor vehicle 2021 ₦'000	Building 2021 ₦'000	Total 2021 ₦'000
Depreciation charge on right-of-use assets	-	114,709	114,709
Interest expense (included in finance cost)	-	26,446	26,446
Modification gain (included in other income)	-	(392,320)	(392,320)
Expense relating to short term leases (included in administrative expenses)	-	17,444	17,444
	-	(233,721)	(233,721)

	Motor vehicle 2020 ₦'000	Building 2020 ₦'000	Total 2020 ₦'000
Depreciation charge on right-of-use assets	68,036	121,856	189,892
Interest expense (included in finance cost)	29,053	56,813	85,866
Modification gain	(1,840,647)	(250,930)	(2,091,577)
Expense relating to short term leases (included in administrative expenses)	-	112,285	112,285
	(1,743,558)	40,024	(1,703,534)

15.3 Amounts recognised in the statement of cash flows

	2021 ₦'000	2020 ₦'000
Financing activities - total cash outflow for leases	57,814	160,585

16 Cash and cash equivalents

Cash at bank	7,787,005	2,656,728
Short term fixed deposits	5,168,205	7,760,111
Cash at bank	12,955,210	10,416,839

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

Cash at bank	7,787,005	2,656,728
Short term fixed deposits	5,168,205	7,760,111
Bank overdrafts (see note 20.1)	(752,353)	(324,752)
Cash and cash equivalents	12,202,857	10,092,087

The Company has a bank guarantee of ₦173,081 (2020: ₦173,081) in respect of FIFL project.

17 Trade and other receivables

	31 December 2021 ₦'000	31 December 2020 ₦'000
Trade receivables (note 17.1)	199,187,411	166,985,023
Loss allowance (note 17.3)	(191,600,669)	(158,545,229)
Net trade receivables	7,586,742	8,439,794
Other receivables (note 17.2)	167,340,001	187,165,256
Loss allowance (note 17.5)	(1,208,731)	(3,563,567)
Net other receivables	166,131,270	183,601,689
	173,718,012	192,041,483

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17.1 Trade receivables relates to billed receivables from sales of electricity which consist of the following based on customer classification:

Residential	157,307,611	125,935,946
Commercial	30,198,011	26,286,306
Industrial	1,906,885	3,862,001
Government and others	9,774,904	10,900,770
	199,187,411	166,985,023

17.2 Other receivables

Staff loans and advances	75,389	76,131
Federal Government of Nigeria (FGN) treasury bills	93,815	96,963
Interest receivables on short term investments	23,868	-
Receivables from collection agents*	823,884	820,644
Tariff shortfall**	166,273,000	186,161,839
Prepayments (note 17.4)	50,045	9,679
	167,340,001	187,165,256

*Receivables from collection agents relate to monies collected from customers not yet remitted to the Company by its collection agents (G-Pay, Easypay International Services Limited, Express Payments Solutions, Interswitch Limited and ITEX).

**Tariff shortfall relates to the amount owed by the Federal Government of Nigeria (FGN) as a result of the tariff differential between the revenue tariff approved by Nigerian Electricity Regulatory Commission (NERC) and the actual end-user tariff charged to the customers of the Company.

The Nigerian Electricity Regulatory Commission (NERC) regulates electricity tariffs in the Nigerian electricity supply industry through the periodic issuance of tariff orders known as the Multi-Year Tariff Order (MYTO). The MYTO ensures prices charged by licensees are fair to consumers and are sufficient to allow licensees recover the cost of energy purchased from the Nigerian Bulk Electricity Trading Plc. (NBET), including a reasonable return on the capital invested in the business.

NERC implemented MYTO reviews in 2020 which had a material and immediate impact on end-user tariffs payables by all classes of electricity customers in the country. Prior to this review, there existed a wide tariff gap due to the absence of cost-reflective tariffs which has not been completely eliminated. As a result, the Company is not able to pass on the full cost of energy purchased to end users leading to both tariff (due from customers to Discos) and market (due from Discos to the market) shortfalls. In 2021 and 2022, NERC issued regulatory orders implementing MYTO reviews for the years 2015 to 2021. It also ordered the elimination of interest on NBET outstanding payables above the minimum monthly remittance thresholds. These orders were issued to reflect the impact of changes in the minor review variables in determining cost-reflective tariff and market shortfalls. It was also issued to maintain the creditworthiness of the balance sheet of DisCos for the purpose of raising capital towards the improvement of electricity networks and service delivery.

17.3 Loss allowance (trade receivables)

At 1 January	158,545,229	135,723,457
Increase in impairment loss for the year (note 9)	33,055,440	22,821,772
At 31 December	191,600,669	158,545,229

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17 Trade and other receivables (continued)	31 December 2021 ₦'000	31 December 2020 ₦'000
17.4 Prepayment		
Prepaid rent*	17,026	-
Prepaid insurance	32,696	9,356
Prepaid meters	323	323
	50,045	9,679
*Prepaid rent relates to prepayments for short term leases as at the end of the year 31 December 2021.		
17.5 Loss allowance (other receivables)		
At 1 January	3,563,567	2,814,529
(decrease)/increase in impairment loss for the year (note 9)	(2,354,836)	749,038
At 31 December	1,208,731	3,563,567
18 Inventories		
Distribution materials	481,056	551,439
Meters	54,510	48,344
Stationeries	35,582	34,533
	571,148	634,316

Distribution materials relate to transformers, insulators and other electrical operating equipment. During the year, there was no write-down of inventory to net realisable value (2020:nil). None of the Company's inventories has been pledged as collateral to secure debt (2020:nil). During the year, inventories amounting to ₦700.7 million (2020: ₦546.7 million) was recognised as an expense and included in cost of sales.

19 Trade and other payables

Trade payable (note 19.1)	213,953,207	226,404,972
Value added tax payable	15,726,854	10,252,600
Accrued expenses	299,254	286,023
Provision (note 19.2)	49,992	193,364
Security deposit*	955,076	838,089
Withholding tax payable	274,067	202,177
Payroll related accruals	803,638	422,147
Other payable	22,641	19,277
	232,084,729	238,618,649

*Security deposit represents deposits by customers at the point of registration as customers to cover for eventual default in settlement of electricity bills. The deposits per customer are determined by the Company and usually covers customers' estimated bills for 1 – 3 months.

19.1 Trade payables relate to amounts owed to Company vendors which is further classified as:

NBET and Market operator (note 26)*	208,825,091	203,391,261
Related parties (note 25)	1,374,550	2,491,341
Other vendors	3,753,566	20,522,370
	213,953,207	226,404,972

*Within payables due to NBET and market operator is an adjustment of ₦60.4 billion which relates to reversal of interest on tariff shortfall related NBET payables based on NERC order number NERC/196/2020 dated 28 January 2020. Per NERC order, the regulator ordered the elimination of interest on tariff related NBET payables.

The payables to the NBET and Market Operator (MO) are secured by a corporate guarantee of ₦5.9 billion from 4Power Consortium Limited (2020: ₦5.9 billion from 4Power Consortium Limited). ₦1.3 billion (2020: ₦1.3 billion) is the guarantee to the Market Operator while the guarantee to NBET is ₦4.6 billion (2020: ₦4.6 billion).

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19 Trade and other payables (continued)	31 December 2021 ₦'000	31 December 2020 ₦'000
19.2 Provisions		
Opening balance	193,364	220,448
Additions in the year	16,628	33,364
Write back	(160,000)	(60,448)
Closing balance	49,992	193,364
Provisions majorly relate to the amount provided for legal claims based on the lawyers' best estimates of the most likely outcome of the legal cases.		
20 Borrowings		
20.1 Bank Overdrafts (current)	752,353	324,752
The bank overdraft represent overdrawn balances on current accounts (Ecobank: ₦2.1 million and Keystone: ₦750.2 million) to enable the Company augment its working capital for the payment of operating expenses. The overdraft attracts an average interest rate of 18% and is secured by a promissory note by the Company and a corporate guarantee by 4Power Consortium Limited.		
20.2 Intercompany loan (current)	503,020	460,984
Intercompany loan relates to loan obtained by the Company from 4Power Consortium Limited in December 2019. The loan is for a period of 12 months and is repayable in monthly installments at an interest rate of 15% per annum. The loan was renegotiated in 2021 for another 12 months till 31 December 2022 at an interest rate of 15%.		
Movements on the borrowings are as follows:		
As at 1 January	460,984	400,000
Additions	-	-
Interest during the period	74,527	60,984
Principal repayments	-	-
Interest paid	(32,491)	-
As at 31 December	503,020	460,984
20.3 Bank borrowings		
20.3.1 Keystone bank loan		
Asset Finance Facility ₦520 million: This was obtained in August 2020 to part-finance the purchase of fifty (50) units of Nissan pickup motor vehicles. The loan is utilized solely for this purpose per the agreement. The facility has a tenor of 48 months with equal monthly rentals of principal and interest at 20% interest rate per annum. In April 2021, the company obtained additional ₦730 million to part-finance the purchase of fifty (50) units of Toyota Hilux pickup vans.		
Current		
Keystone bank loans	448,197	209,174
Non-current		
Keystone bank loans	599,333	310,444
	1,047,530	519,618
Movements on the borrowings are as follows:		
As at 1 January	519,618	-
Additions	730,000	520,300
Interest during the period	175,962	26,230
Principal repayments	(203,144)	-
Interest paid	(174,906)	(26,912)
As at 31 December	1,047,530	519,618

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20.3 Bank borrowings (continued)	31 December 2021 ₦'000	31 December 2020 ₦'000
20.3.2 CBN-NEMSF1 Loan		
Current		
CBN-NEMSF Loan	3,118,368	3,386,885
Non-current		
CBN-NEMSF Loan	4,038,503	5,659,926
	7,156,871	9,046,811
Movements on the borrowings are as follows:		
As at 1 January	9,046,811	10,189,439
Additions	-	-
Modification adjustments*	(798,419)	-
Interest during the period	1,898,106	2,385,962
Principal repayments	(2,456,439)	(2,228,831)
Interest paid	(533,188)	(1,299,759)
Transferred to deferred intervention fund (note 21)	-	-
As at 31 December	7,156,871	9,046,811
20.3.3 CBN-NMMP Loan		
Current		
CBN-NMMP Loan	376,343	223,424
Non-current		
CBN-NMMP Loan	1,923,583	1,908,682
	2,299,926	2,132,106
Movements on the borrowings are as follows:		
As at 1 January	2,132,106	-
Additions	-	4,184,887
Modification adjustments*	(154,191)	-
Interest during the period	531,244	26,188
Principal repayments	-	-
Interest paid	(209,233)	(5,137)
Transferred to deferred intervention fund (note 21)	-	(2,073,832)
As at 31 December	2,299,926	2,132,106
*Modification adjustments relates to the effect of covid-19 concession on the interest rates of these loans (CBN-NEMSF1 and CBN-NMMP) which led to the reduction in interest rates.		
20.3.4 CBN-NEMSF2 Loan		
Current		
CBN-NEMSF2 Loan	726,341	-
Non-current		
CBN-NEMSF2 Loan	6,717,354	-
	7,443,695	-
Movements on the borrowings are as follows:		
As at 1 January	-	-
Additions	14,526,810	-
Interest during the period	984,682	-
Principal repayments	-	-
Interest paid	(393,900)	-
Transferred to deferred intervention fund (note 21)	(7,673,897)	-
As at 31 December	7,443,695	-

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20.3 Bank borrowings (continued)

Details of the bank loan is shown below:

Non-current	Tenure/ interest rate	Available facility ₦'000	Draw down to 2021 ₦'000
Loan type/ purpose			
Central Bank of Nigeria - Nigeria Electricity Market Stabilisation Facility (CBN - NEMSF)	10 years; 10%. 5% from 1 Mar 2020 till 28 Feb. 2023 and 10% onwards	19,882,765	19,882,765
Central Bank of Nigeria -National Mass Metering Programme Facility (CBN-NMMP)	10 years; 5% till 28 Feb. 2022 and 9% onwards	4,568,759	4,184,887
Central Bank of Nigeria - Nigeria Electricity Market Stabilisation Facility 2 (CBN - NEMSF2)	10 years; 5% till 28 Feb. 2023 and 9% onwards	23,558,998	14,526,810

The Federal Government of Nigeria through the Central Bank of Nigeria ("CBN"), the Federal Ministry of Petroleum Resources, the Federal Ministry of Power and the Nigerian Electricity Regulatory Commission ("NERC") incorporated a special purpose vehicle - NESI Stabilization Strategy Limited to oversee the implementation and repayment of the CBN-Nigerian Electricity Market Stabilization Facility ("CBN-NEMSF1" or "the facility"). The facility is aimed at settling the outstanding payment obligations due to the market participants during the Interim Rules Period ("IRP Debts") as well as the legacy gas debt of the PHCN generation companies owed to gas suppliers ("Legacy Gas Debt") which has been transferred to the Nigerian Electricity Liability Management Company Limited by Guarantee ("NELMCO").

Port Harcourt Electricity Distribution Company Plc. is one of the major beneficiaries of this facility (CBN-NEMSF1). As at 31 December 2021, the sum of ₦19.88 billion has been disbursed of which ₦6.6 billion was received in cash in 2015 and the balance was applied to settle amount due to market participants over the years.

In 2020, the Federal Government established the National Mass Metering Program ("NMMP") while enables distribution companies to provide about six (6) million "free" meters over the next 18-36 months to unmetered consumers. This is provided via the CBN financing framework to provide financial support-via a loan facility-to the distribution companies and local meter manufacturers.

Repayment of the loan is secured against the regulator's reset of the Multi Year Tariff Order 2 (MYTO 2) by issuing the MYTO 2.1 and the approval of the distribution companies' tariff plan.

In 2021, the Federal Government of Nigeria through the Central Bank of Nigeria - Nigerian Electricity Market Stabilization issued a new facility ("CBN-NEMSF 2" or "the facility"). The purpose of this facility is to part-finance solely, PHED's (the borrower) obligations to NBET & MO and its operations arising from the under-collection under the Service Based Tariff scheme in line with the ramp up programme. The facility is also aimed at financing critical projects for the borrower in line with MYTO approved CAPEX by NERC.

Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the directors expect would be available to the Company at the reporting date.

21 Government grants

Government grant relates to the loan obtained from the Federal Government of Nigeria through the Central Bank of Nigeria (CBN - NEMSF1 & NEMSF2) at a rate below the prevailing market as described in note 20. The fair value of the grant was recognized initially on the grant date and subsequently amortized on a straight line basis over the tenure of the loan. There were no unfulfilled conditions relating to the grant as at the reporting date.

In 2020, the Federal Government established the National Mass Metering Program ("NMMP") while enables distribution companies to provide about six (6) million "free" meters over the next 18-36 months to unmetered consumers. This is provided via the CBN financing framework to provide financial support-via a loan facility-to the distributions companies and local meter manufacturers.

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21 Government grants (continued)

	31 December 2021 ₦'000	31 December 2020 ₦'000
Analysis of government grant		
As at 1 January	5,941,605	4,835,307
Additions in the period	7,673,897	2,073,832
Recognized in profit or loss (note 7)	(1,425,402)	(967,534)
As at 31 December	12,190,100	5,941,605
Current	1,993,335	954,525
Non - current	10,196,765	4,987,080
	12,190,100	5,941,605

The deferred income approach was adopted whereby the government grant is recognized systematically in the profit or loss over the useful life of the loan in accordance with IAS 20 para 26.

22 Contract liabilities

CAPMI deposit*	1,442,906	1,443,264
MAP liability**	2,778,159	1,383,351
Deferred revenue - prepaid customers***	30,808	-
Payables to collection agents****	210,305	220,579
At 31 December	4,462,178	3,047,194

*CAPMI deposit relates to the liability as a result of the credit advance payment for meter installation (CAPMI) optional scheme which was designed to allow willing customers advance money in exchange for the installation of meters. Once meters have been installed under this scheme issued by Nigerian Electricity Regulatory Commission (NERC), customers are then refunded for the cost of the meter by way of monthly reductions on the variable energy charge element of their electricity bills over time. The CAPMI optional scheme was abolished by NERC with effect from 1 November 2016 and there were no further additions to the scheme after this date.

**The MAP liability is as a result of the Meter Asset Provider (MAP regulation) issued in 2018. On 5 April 2019, NERC in accordance with the MAP regulations issued permits to meter asset providers to supply, install, maintain and replace meters over its technical life on behalf of the DISCOs. The MAPs would assist, as investors, in closing the metering gap and thus eliminate estimated billing in the Nigerian Electricity Supply Industry (NESI). Once the meters have been installed, the customers pay the meter asset providers directly. The customers are then refunded for the cost of the meter by way of monthly reductions on the variable energy charge element of their electricity bills over time. Hence the liability recognised in the current year as about 24,000 customers have been metered in 2021 alone (2020: 50,000 customers).

***Deferred revenue relates to the portion of prepaid vending from prepaid customers not yet consumed as at the end of the year 31 December 2021.

****Payables to collection agents relate to commission owed or money received from the collection agents to fund their energy wallets for which units of electricity are yet to be credited to the agent. The collection agents include Easypay International Services Limited, Express Payment Solutions Limited and Broad Shift Technologies Limited.

23 Equity

23.1 Share capital

	31 December 2021 ₦'000	31 December 2020 ₦'000
Authorized:		
10 million ordinary shares of 50 kobo each	5,000	5,000
Issued and fully paid:		
10 million ordinary shares of 50 kobo each	5,000	5,000

23.2 Accumulated deficits

At 1 January	(11,723,821)	(12,229,308)
(Loss)/profit for the year	(18,180,051)	232
Transfer of excess depreciation due to revaluation	878,432	505,255
At 31 December	(29,025,440)	(11,723,821)

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23 Equity (continued)	31 December 2021 ₦'000	31 December 2020 ₦'000
23.3 Revaluation reserve		
At 1 January	17,311,837	17,817,092
Revaluation surplus for the year	47,609,202	-
Transfer of excess depreciation due to revaluation	(878,432)	(505,255)
	64,042,607	17,311,837

Revaluation reserve relates to the surplus on Property, Plant and Equipment (PPE) which arose as a result of the revaluation of the Company's assets in 2016. Movement in this account relates to additional revaluation surplus and the transfer of excess depreciation charged in current year from the revaluation reserve to accumulated deficits.

24 Cash generated from operations	31 December 2021 ₦'000	31 December 2020 ₦'000
Reconciliation of loss before income tax to cash generated from operations:		
(Loss)/profit before income tax	(17,832,601)	451,706
Adjustments for:		
Depreciation charge on property, plant and equipment (note 13)	2,657,772	2,306,717
Depreciation charge on right of use assets (note 15.1.1)	114,709	189,892
Amortization of intangible asset (note 14)	26,974	49,400
Write offs to property, plant and equipment (note 13)	380,296	448
Bank borrowings modification adjustments (note 20.3.2 & 20.3.3)	(952,610)	-
Lease modification adjustments (note 15.1)	(144,359)	(504,991)
Lease interest expense (note 10)	26,446	85,866
Interest expense on borrowings (note 10)	3,715,084	2,499,364
Interest income (note 10)	(115,280)	(110,380)
Other income (grant) (note 7)	(1,425,402)	(967,534)
Minimum tax levy (note 11)	503,382	262,988
Loss on disposal of property, plant and equipment (note 8)	75,431	25,324
Adjustments for movement in working capital:		
Increase in trade receivables	853,052	(8,425,048)
Decrease in other receivables	17,470,419	14,252,732
Decrease in inventory	63,168	236,658
Increase in contract liabilities	1,414,984	1,155,753
Decrease in trade and other payables*	(6,533,920)	(1,690,919)
	297,545	9,817,976

*Movement in trade and other payables excludes VAT paid within the year.

24.1 Reconciliation of 2021 trade and other payables	₦'000
Balance as at 31 December 2021	232,084,729
Balance as at 31 December 2020	238,618,649
Movement in the year	(6,533,920)
VAT paid	-
Net movement in the year	(6,533,920)
24.2 Reconciliation of 2020 trade and other payables	₦'000
Balance as at 31 December 2020	238,618,649
Balance as at 31 December 2019	241,220,640
Movement in the year	(2,601,991)
VAT paid	911,072
Net movement in the year	(1,690,919)

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25 Related party transactions

Related party transactions for the year ended 31 December 2021:

a Parent entity

Name	Type	Ownership interest	
		2021	2020
4Power Consortium	Parent entity	60%	60%

4Power Consortium is made up of nine equity companies including Bayelsa Electricity Company Limited, First Independent Power Company Limited, Taleveras Group of Companies Limited, Lilleker Brothers (Nigeria), Income Electrix Limited/CESC Limited Joint Venture, Skyview Power Technologies Limited, Akwa Ibom Investment Corporation (AKICORP), Paradise Power Nigeria Limited and CESC.

	1 January 2021 ₦'000	Additions ₦'000	Payments ₦'000	31 December 2021 ₦'000
4Power Consortium				
Vehicle Lease*	66,679	23,414	(22,478)	67,615
Loan payable	460,984	74,527	(32,491)	503,020
	527,663	97,941	(54,969)	570,635

*Vehicle lease relates to short-term lease which have been expensed during the year.

b Operations and management agreement

In November 2013, the Company entered into an operations and management contract with Income Electrix Limited (as a local technical partner) for the provision of technical service assistance including extensive services on IT, procurement, integration, strategic personnel support and turnaround strategies.

	1 January 2021 ₦'000	Additions ₦'000	Payments ₦'000	31 December 2021 ₦'000
Operations and maintenance	354,422	1,462,319	(956,493)	860,248
Secondment fee	42,705	341,391	(318,891)	65,205
	397,127	1,803,710	(1,275,384)	925,453

Additions during the year have been recognised within the 'administrative expenses' (note 8) under 'profit or loss' while the closing balance have been recognised in 'other payables' (note 19.1).

c Metering contract with related parties

In 2016, the Company entered into a metering supply contract with five related parties valued at ₦1.8 billion. In April 2017, the Company also entered into meter installation contract valued at ₦739.5 million with Kilowatt Engineering Services to install meters. In 2020, Armese Ltd. renewed its metering contract with the Company for ₦3.0 billion for the supply of 71,194 meters under the Metering Asset Program (MAP).

The following table provides the amount owed to each of these related parties for the relevant years:

	1 January 2021 ₦'000	Additions ₦'000	Payments ₦'000	31 December 2021 ₦'000
Armese Limited	60,519	-	-	60,519
Leighton Energy Synergy	53,217	13,519	-	66,736
Invotec Limited	500	-	-	500
	114,236	13,519	-	127,755

Additions during the year have been recognised within the 'administrative expenses' (note 8) under 'profit or loss' while the closing balance have been recognised in 'other payables' (note 19.1).

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25 Related party transactions (continued)

d Procurement, construction and commissioning of 33KV Commercial Feeder

In September 2018, the Company entered into a contract with Modev Nigeria Limited for the procurement, construction and commissioning of a 33 KVA commercial feeder in the University of Port Harcourt's teaching hospital (UPTH) valued at thirty million naira (₦30 million).

	1 January 2021 ₦'000	Additions ₦'000	Payments ₦'000	31 December 2021 ₦'000
Modev Nigeria Limited	6,617	-	-	6,617

There were no movements during the year. The balance has been recognised in 'other payables' (note 19.1)

e Ancillary services performed by related parties

Ancillary services performed by related parties are shown below:

	1 January 2021 ₦'000	Additions ₦'000	Payments ₦'000	31 December 2021 ₦'000
Tegwa-Tegwa: Weeding of injection sub station	3,664	-	-	3,664
Chakel Security Services: Security services	1,263	60,774	(59,314)	2,723
Kilowatt Engineering: Transformer maintenance and repairs	176,658	124,142	(60,078)	240,722
	181,585	184,916	(119,392)	247,109

Additions during the year have been recognised within the 'administrative expenses' (note 8) under 'profit or loss' while the closing balance have been recognised in 'other payables' (note 19.1).

f Payment collection and energy vending services performed by related parties

In 25 February 2019, the Company entered into a payment collection and energy vending agreement with Easypay International Services Limited. The energy vending agreement brings about the contract liability as outlined in notes 22. The collection agreement brings about a receivable which represents the monies collected on behalf of the Company which is yet to be remitted as at 31 December 2021.

	1 January 2021 ₦'000	Additions ₦'000	Payments ₦'000	31 December 2021 ₦'000
Related party receivable				
Easypay International Services Limited	21,356	11,864,931	(11,886,287)	-

The companies disclosed in notes 25b - 25g have key management personnel in common with Port Harcourt Electricity Distribution Plc. and are therefore, related parties of the Company.

g Key management compensation

Key management includes the directors (executive and non-executive). The compensation paid or payable to key management for employee services is shown below:

	31 December 2021 ₦'000	31 December 2020 ₦'000
Remuneration paid to the Company's directors was:		
Salaries and wages	191,850	180,000
Other short term benefits*	47,433	150,260
	239,283	330,260

*Other short term benefits relates to director's fees and board expenses.

Fees and other emoluments disclosed above includes amount paid to:

Highest paid director	191,850	180,000
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There was no other compensation paid during the period. There were no loans to key management personnel.

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25 Related party transactions (continued)

The number of directors who received fees and other emoluments (excluding pension contributions) in the following ranges was:

	31 December 2021 Number	31 December 2020 Number
Below ₦10,000,000	-	-
₦10,000,001 - ₦20,000,000	8	8
₦20,000,001 - ₦30,000,000	-	-
Above ₦30,000,000	1	1
	9	9

h Employees information

The average number of persons employed by the Company during the period is as follows:

Senior Management	17	16
Management	122	104
Senior staff	868	661
Junior staff	1,219	1,336
	2,226	2,117

	31 December 2021 ₦'000	31 December 2020 ₦'000
Staff cost for employees and contractors		
Salaries and allowances (including the executive directors emoluments)	3,722,736	2,964,370
Pension costs- defined contribution plans	181,214	127,945
	3,903,950	3,092,315

Of this amount, ₦2.3 billion representing direct staff costs was reclassified to cost of sales (2020: ₦2.0 billion).

Other-paid employees of the Company, other than directors, whose duties were wholly or mainly discharged in Nigeria received remuneration (excluding pension contributions) in the following ranges:

	31 December 2021 Number	31 December 2020 Number
Below ₦1,000,000	1,220	1,123
₦1,000,000 - ₦2,000,000	648	610
₦2,000,000 - ₦3,000,000	156	218
₦3,000,000 - ₦4,000,000	140	103
₦4,000,000 - ₦5,000,000	17	21
Above ₦5,000,000	45	42
	2,226	2,117

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25 Related party transactions (continued)

i Transactions with key management personnel

There were no transactions with key management personnel or their close family members (2020:nil).

j Loans to directors

The Company did not lend money to any of its directors during the year under review (2020:nil).

k Payments on behalf of key management personnel

There were no payments on behalf of key management personnel during the year under review (2020:nil).

l Terms and conditions

All related party transactions were made on normal commercial terms and conditions and market rates. The outstanding related party balances are unsecured and are repayable in cash.

26 Nigerian Bulk Electricity Trading Plc (NBET) and Operator of the Nigerian Electricity Market (Market Operator)

The Nigerian Bulk Electricity Trading Plc (NBET) is a government owned public liability company. It is an electricity trading licensee that engages in the purchase of electric power from independent power producers and generation companies and responsible for the subsequent resale to distribution companies and eligible consumers.

The Operator of the Nigerian Electricity Market, an operational arm of the Transmission Company of Nigeria (TCN) is responsible for the operations of the electricity market and the administration of metering systems among generation, transmission and distribution companies.

	31 December 2020 ₦'000	*Adjustment ₦'000	Additions ₦'000	Payments ₦'000	31 December 2021 ₦'000
NBET	175,742,487	(43,521,999)	75,445,556	(26,171,874)	181,494,170
Market Operators	27,648,774	(716,000)	13,264,329	(12,866,182)	27,330,921
	203,391,261	(44,237,999)	88,709,885	(39,038,056)	208,825,091

*Adjustment relates to the credit notes issued to PHED by NBET of ₦43.5 billion for 2020 & 2021 shortfalls, and economic merit order dispatch (EMOD) issued by Market operators of ₦716 million during the year 2021.

27 Capital commitments and contingent liabilities

a Capital commitments

The Company had no capital commitments as of the balance sheet date (2020:nil).

b Contingent liabilities

A contingent liability is a potential liability that may occur depending on the outcome of an uncertain future event. At the balance sheet date, the Company had 14 pending court cases where the plaintiff's claim in total is to the tune of ₦7.7 billion (2020: ₦2.2 billion). The Company's lawyer has expressed optimism that the incidence of liability against the Company will be minimal.

Transfer of pre-takeover liabilities and receivables

As part of the privatisation process, the Company through the Bureau of Public Enterprise (BPE) signed a deed of assignment of the pre-takeover liabilities and trade receivables with Nigerian Electricity Liability Management Company (NELMCO) effective 31 October 2013. The directors, based on independent legal advice obtained as well as their understanding of the Share Sale Agreement between 4Power Consortium, BPE and Ministry of Finance Incorporated, are of the opinion that all pre-takeover trade receivables and liabilities (crystallized or contingent) as at 31 October 2013 have been effectively transferred to NELMCO. Therefore, the Company believes that it will neither realise those receivables nor settle any liability existing as at 31 October 2013 and no recognition of impairment is required.

Port Harcourt Electricity Distribution Plc.

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28 Going concern

The Company made a loss after tax of ₦18.2 billion (2020: profit after tax of ₦0.2 million) and is in a net current liabilities position of ₦59.6 billion (2020: ₦45.9 billion) at the end of the year. In addition, the Company had an accumulated deficit of ₦29.03 billion (2020: ₦11.7 billion) as at 31 December 2021.

The dynamics of Transitional Electricity Market (TEM) was that the distribution companies would pay the full price of energy purchased from Nigeria Bulk Electricity Trading Plc (NBET) and reflect same in the charges passed on to end users. However, the distribution companies (DisCos) have not been able to pass on those full charges despite the 2020 implementation of a 'service based' tariff by the Nigerian Electricity Regulatory Commission (NERC) despite having to pay the full amount of energy purchase from the Market Operators and a minimum amount of 57.27% to NBET. Accordingly, they continue to make losses.

These conditions indicate that there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The directors have undertaken the following steps to address the situation:

- a** The directors have implemented action plans necessary to reduce the Aggregate Technical, Commercial & Collection (ATC&C) losses. These actions include:
 - i** achieve 100% metering of customers by installing 369,171 meters over the next 2 years;
 - ii** increase number of customers from the current level of 712,805 to 1,082,413 over the next 4 years;
 - iii** increased rate of customer enumeration to ensure effective customer billing and validation of existing customer database;
 - iv** increase customer safety and reduce inadvertent accidents;
 - v** increase collection efficiency to 75% in the next one year by implementing company technical, operational, performance and financial restructuring programs;
 - vi** increased infrastructure investment to strengthen the distribution network among other initiatives;
 - vii** implementation of a Revenue Protection Project (RPP) supported by advanced metering infrastructure (AMI); and
- viii** NERCs approval of Service-Based Tariffs (SBT) to ensure that rates paid by customers align with the quality of service as measured by the daily average availability of power supply over a 60-day reference period.
- b** The directors are also engaging in high level discussions with the Nigerian Electricity Regulatory Commission (NERC). Highlighted below are recent NERC orders impacting the Company.
 - i** The Nigerian Electricity Regulatory Commission (NERC) has ordered the elimination of interest on NBET outstanding payables above the minimum monthly remittance thresholds for each DisCo. The minimum monthly remittance thresholds are minimum thresholds of NBET's invoice expected to be remitted by the DisCos on a monthly basis and within a stipulated time frame;
 - ii** NERC has affirmed FGN tariff support during the transitional period to full revenue recovery ending June 2021 based on the under recovery of the revenue requirement determined by NERC but only within the context of funding available under the Power Sector Recovery Programme "PSRP" financing plan. This is demonstrated by tariff payments by the FGN to the GENCOs and NBET which reduces the "payables" of PHED to NBET. Subsequent to year end, credit notes worth over ₦43.5 billion was received from NBET to offset existing payables as these monies had been received by the GENCOs;
 - iii** NERC has also required DisCos to disaggregate their respective service areas and/or customers in accordance with quality of service and supported by a proposal for 'service reflective' tariff classes that shall be graduated by quality of service. This NERC order would ensure reduction in ATC&C losses via increased revenue and increased collections. This NERC order is currently being implemented by the Company;
 - iv** NERC issued an order compelling the DisCos to meter customers in a bid to reduce the incidence of estimated billing. This order would ensure increase metering of customers via National Mass Metering Programme (NNMP) loan and reduce the incidence of estimated billings of consumers. This NERC order is currently being implemented by the Company.

The directors are hopeful that the steps taken will have a successful outcome and result in significant improvement in the Company's operating results and financial position.

The directors conclude that they have a reasonable expectation that the Company can continue in operational existence for the foreseeable future. For these reasons the Company continues to adopt the going concern basis in preparing its financial statements.

Port Harcourt Electricity Distribution Plc.

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Notes to the Financial Statements

29 Impairment of financial assets

The following are the Company's financial assets that are subject to IFRS 9's expected credit loss model:

- Trade receivable
- Other receivables*
- Cash and cash equivalents

*Other receivables exclude withholding tax recoverable, prepayment and value added tax (VAT) receivables as these are non-financial instruments.

a Trade receivables

The Company applies the simplified approach in measuring the expected credit losses (ECL) which recognises a lifetime expected loss allowance for all trade receivables. Trade receivables represent the amount of receivable from third-party customers for the supply of power. The expected credit loss rate for this receivable is determined using a provision matrix approach.

The provision matrix approach is based on the historical credit losses experienced within five (5) years before 1 January 2021 and 31 December 2021. The historical loss rates are adjusted to reflect forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the Gross Domestic product (GDP) and inflation rate of Nigeria (being the country in which it provides its services) to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2021 in accordance with IFRS 9 was determined as follows:

Age of trade receivables	0 - 3 months	4 - 6 months	7 - 9 months	10 - 12 months	Above 12 months	Total
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Gross carrying amount	17,683,377	13,680,867	9,696,314	16,904,878	141,221,974	199,187,410
Default rate	76.59%	88.22%	89.74%	95.03%	100.00%	96.19%
Lifetime ECL	(13,543,264)	(12,069,170)	(8,701,439)	(16,064,821)	(141,221,974)	(191,600,668)
Net carrying amount	4,140,113	1,611,697	994,875	840,058	-	7,586,743

On that basis, the loss allowance as at 31 December 2020 in accordance with IFRS 9 was determined as follows:

Age of trade receivables	0 - 3 months	4 - 6 months	7 - 9 months	10 - 12 months	Above 12 months	Total
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Gross carrying amount	15,114,946	13,627,131	12,809,114	9,993,940	115,439,892	166,985,023
Default rate	76.27%	84.52%	85.13%	91.61%	100.00%	94.95%
Lifetime ECL	(11,527,869)	(11,517,659)	(10,903,891)	(9,155,918)	(115,439,892)	(158,545,229)
Net carrying amount	3,587,077	2,109,472	1,905,223	838,022	-	8,439,794

b Other receivables

For presentation purposes, this has been classified into two categories;

Category 1: FGN treasury bills.

Category 2: Receivables from collection agents and receivables from the Federal Government of Nigeria as a result of the revenue tariff shortfall.

For both categories, the Company applied the IFRS 9 general model for measuring their expected credit losses (ECL). This requires a three-stage approach in recognising the expected loss allowance. A day one provision will now be required on these instruments. The three-stage model will require monitoring of credit risk to determine when there has been a significant increase. The ECL has been calculated using the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The three (3) stage model also incorporates forward looking estimates. The ECL recognised for the period is a probability-weighted estimate of credit losses discounted at the effective interest rate of the financial asset. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2021

Notes to the Financial Statements

29 Impairment of financial assets (continued)

b Other receivables (continued)

Analysis of stage classifications against credit rating:

Company internal credit rating as at 31 December 2021	External credit rating*	Expected credit loss rate	Gross carrying amount (stage 1) N'000	Gross carrying amount (stage 2) N'000	Gross carrying amount (stage 3) N'000	Total N'000
Moderate	S&P B-	0.71%	3,731,709	166,370,000	810,737	170,912,446
Low	S&P CCC/C	3.33%	369	-	-	369
Total			3,732,078	166,370,000	810,737	170,912,815

*The Company has mapped these instruments to external credit ratings based on similar characteristics.

The identified expected losses as at 31 December 2021 are as follows:

	Stage 1 N'000	Stage 2 N'000	Stage 3 N'000	Total N'000
Gross carrying amount	3,732,078	166,370,000	810,737	170,912,815
Default rate	0.29%	0.23%	100.00%	0.71%
Lifetime ECL	(10,931)	(387,063)	(810,737)	(1,208,731)
Net carrying amount	3,721,147	165,982,937	-	169,704,084

Roll forward movement in loss allowance

The loss allowance recognised in the year is impacted by a variety of factors, as described below:

- Releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the year, arising from regular refreshing of inputs to models;

The following table explains the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	Stage 1 12-month ECL N'000	Stage 2 Lifetime ECL N'000	Stage 3 Lifetime ECL N'000	Total N'000
Loss allowance as at 31 December 2020	15,629	2,737,201	810,737	3,563,567
Movement with profit or loss impact:				
Financial assets that have been derecognised during the period	-	(2,068,783)	-	(2,068,783)
Changes in PDs/LGDs/EADs	(4,698)	(281,355)	-	(286,053)
Loss allowance as at 31 December 2021	10,931	387,063	810,737	1,208,731

There were no collateral pledged as security for financial assets held as at 31 December 2021 (2020: nil).

c Cash and cash equivalents

The Company applied the IFRS 9 general model for measuring expected credit losses (ECL) to cash and cash equivalents. This requires a three-stage approach in recognising the expected loss allowance. A day one provision will now be required on these instruments. The three stage model will require monitoring of credit risk to determine when there has been a significant increase. The ECL has been calculated using the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The three (3) stage model also incorporate forward looking estimates.

The ECL recognised for the period is a probability-weighted estimate of credit losses discounted at the effective interest rate of the financial asset. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

The Company assessed the cash and cash equivalents to determine their expected credit losses. Based on this assessment, they identified the expected losses as at 1 January 2021 and 31 December 2021 to be insignificant. The assets are assessed to be in stage 1.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2021

Notes to the Financial Statements

29 Impairment of financial assets (continued)

c Cash and cash equivalents (continued)

The Company considers both quantitative and qualitative indicators in classifying these financial assets into the relevant stages for impairment calculation. Impairment provision is recognised in three stages based on days past due. Using the criteria stated, a worst case staging is assigned to every receivable.

Stage 1: This stage includes financial assets that are less than 30 days past due (performing).

Stage 2: This stage includes financial assets that have been assessed to have experienced a significant increase in credit risk using the days past due criteria (i.e., the outstanding receivables amounts are more than 30 days past due but less than 90 days past due) and other qualitative indicators such as external credit rating (as far as available) and actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations.

Stage 3: This stage includes financial assets that have been assessed as being in default. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Company. The Company categorises a receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where receivables have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due.

The parameters used to determine impairment using the general approach on financial assets measured at amortised cost are as shown below.

<i>Probability of Default (PD)</i>	This is the probability that the counterparty will default in fulfilling obligations within a predetermined time frame. The rating of the counterparty is used to determine the PD. The respective ratings were mapped to S&P's rating.
<i>Loss Given Default (LGD)</i>	This relates to the share of the financial asset that is lost if the borrower defaults. It is the inverse of the recovery rate and it is determined after taking into consideration the potential cash recovery, collateral realization and other credit enhancements. The 12-month and lifetime LGD was determined using Moody's senior unsecured corporate rate.
<i>Exposure at default (EAD)</i>	The EAD is the maximum exposure of the receivable to credit risk without taking account of any collateral but adjusted for repayment pattern and interest receivable.
<i>Macroeconomic indicators</i>	Macroeconomic indicators assessed to affect the credit risk of the asset is used to arrive at scalar adjustments which is used to adjust the expected credit losses under three scenarios – base case, optimistic and pessimistic.
<i>Probability weightings</i>	The Z score was used to calculate the probability of having a best, downturn and optimistic scenarios by comparing Nigeria GDP historical experience from 2006 - 2018. 82% weight was assigned to best case, 2% for optimistic and 16% for downturn.

30 Non-audit services

Below are the details of Non-audit services performed for the Company. This is in accordance with FRCN disclosure requirements.

Name of signer	FRC Number	Name of firm	Services rendered
Babatope O. Fasunloro	FRC/2013/000000000584	Knight Frank	Revaluation of PP&E

No non-audit services were provided by PricewaterhouseCoopers (PwC) to the Company during the year under review.

31 Events after reporting period

On 5 July 2022, the Nigerian Electricity Regulatory Commission (NERC) ordered the restructuring of the Management and Board of Port Harcourt Electricity Distribution Company (the Company) as a condition for support to the entity to meet its market obligations. By this order, Ibiroma Akpana took over as the chairman of the Board, Emmanuel Okotete, Eyo Ekpo, Ismaila Shuaibu and the DG of BPE formed part of the interim Board. Mr. Benson Uwheru also took over as the Managing Director and as part of the changes, Government will support the activation of Emergency funds through the Nigerian Electricity Market Stabilization Facility to support the Company while it goes through restructuring and repositioning to serve the citizens of its franchise area better.

Port Harcourt Electricity Distribution Plc.

Other National Disclosures

For the Year Ended 31 December 2021

Value Added Statement

	Notes	31 December 2021 ₦'000	%	31 December 2020 ₦'000	%
Revenue from contracts with customers	5	72,969,394	(1,016)	57,144,010	345
Other income	7	29,409,532	(410)	48,066,486	290
Bought in materials and services		(109,559,133)	1,526	(88,631,759)	(535)
Value (eroded)/added		(7,180,207)	100	16,578,737	100
Distributed as follows:					
Employees					
Salaries and wages	6,8	3,722,736	(52)	2,964,370	18
Providers of capital					
Interest on borrowings	10	3,741,530	(52)	10,543,556	64
Maintenance of assets					
Depreciation	13	2,657,772	(37)	2,306,717	14
Amortization	14	26,974	1	49,400	1
Government					
Taxation	8, 11.1	850,832	(12)	714,462	4
Retained for growth and expansion					
Loss/(profit) attributable to members		(18,180,051)	252	232	(1)
Value (eroded)/added		(7,180,207)	100	16,578,737	100

The value added statement is presented in these financial statements for the purpose of complying with the Companies and Allied Matters Act disclosure requirements.

Port Harcourt Electricity Distribution Plc.

Other National Disclosures

For the Year Ended 31 December 2021

Five-Year Financial Summary

STATEMENT OF FINANCIAL POSITION

	31 December 2021 ₦'000	31 December 2020 ₦'000	31 December 2019 ₦'000	31 December 2018 ₦'000	31 December 2017 (Restated) ₦'000
ASSETS EMPLOYED					
Non-current assets	118,171,248	64,437,257	65,375,782	64,459,522	63,771,382
Current assets	187,244,370	203,092,638	202,336,851	5,087,151	48,008,539
TOTAL ASSETS	305,415,618	267,529,895	267,712,633	69,546,673	111,779,921
LIABILITIES					
Current liabilities	(246,857,546)	(248,967,838)	(248,781,239)	(41,731,355)	(31,041,968)
Non-current liabilities	(23,535,905)	(12,969,041)	(13,338,610)	(13,410,491)	(10,554,162)
TOTAL LIABILITIES	(270,393,451)	(261,936,879)	(262,119,849)	(55,141,846)	(41,596,130)
NET ASSETS	35,022,167	5,593,016	5,592,784	14,404,827	70,183,791
CAPITAL AND RESERVES					
Share capital	5,000	5,000	5,000	5,000	5,000
(Accumulated deficit)/retained earnings	(29,025,440)	(11,723,821)	(12,229,308)	(4,201,857)	50,855,855
Revaluation reserve	64,042,607	17,311,837	17,817,092	18,601,684	19,322,936
	35,022,167	5,593,016	5,592,784	14,404,827	70,183,791

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2021 ₦'000	2020 ₦'000	2019 ₦'000	2018 ₦'000	2017 (Restated) ₦'000
Revenue from contracts with customers	72,969,394	57,144,010	49,884,008	48,608,452	78,827,376
(Loss)/profit before income tax	(17,832,601)	451,706	(8,812,043)	(14,553,222)	630,824
Income tax (expense)/credit	(347,450)	(451,474)	-	-	-
Total comprehensive profit/(loss)	29,429,151	232	(8,812,043)	(14,553,222)	630,824
Basic (loss)/earnings per share (₦)	(1,818.01)	0.02	(881.20)	(1,455.00)	63.08

The five-year financial summary is presented in these financial statements for the purpose of complying with the Companies and Allied Matters Act disclosure requirements.